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East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS



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25 January 1984

EAST EUROPE REPORT

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JAKES INTERVIEWED ON INTENSIFICATION OF ECONOMY

Prague HOSPODARSKE NOVINY in Czech 25 Nov 83 pp 1, 7

[Interview with Milos Jakes, secretary of the CPCZ Central Committee and member of its Presidium, at the 23 November Ninth CPCZ Central Committee Plenum in Prague, by HOSPODARSKE NOVINY: "What Is Decisive Are Final Results"]

[Text] [Question] Comrade secretary, for a long time now we have been talking about the necessity of turning the Czechoslovak national economy to the course of intensive economic development. However, the start in this direction is slow. Where do you see the main reasons for this?

[Answer] An intensification requires new attitudes towards management, decisionmaking, planning, economic stimulation, directing the development of workers' initiative. There is still strong conservatism, however, which cannot be overcome only by decree or regulation. This is connected with an incorrect comprehension of socialism, particularly in displaying the ever-surviving discrepancy between the "my" and the "our." Often the "our" stays apart in the thinking process of a part of both workers and managers. This is a difficult political struggle which has to be not only conducted incessantly, but also intensified.

In spite of all the explaining and reasoning, there are still quite a few managers who prefer the interests of a group, a department or other body to those of the whole society, not implementing thoroughly the improved system of planned management of the national economy. Direct decisionmaking is also important, such as that involving the imposition of limits on the consumption of fuel, energy, raw materials, metals.

[Question] Practically, we are now at the end of the third year of the Seventh 5-Year Plan. How do you evaluate the process of revitalizing the dynamics in the development of Czechoslovak economy?

[Answer] In the first 2 years of the 5-year plan, a certain stagnation in the development of the national economy was supposed to do the following: help adapt to new conditions, resolve a substantial reduction in oil consumption, solve all overall reduction in energetic and material demands, modify our foreign trade to altered conditions in the world, and start reducing foreign debts. That was inevitable.

Today I can say that, in general, we have managed to realize the above intentions. Although no miracles have been achieved--the national revenue was practically at a halt, but the standard of living was maintained, even at the price of reducing the investment portion--we have disposed of difficult problems which were considered by many people as unsolvable in such a short time. At the same time, conditions have been created which enabled us, starting with 1983, to begin once again the renewal of the dynamic development of our national economy. It seems that we are doing even better than expected; consequently, we have great reserves in our economy, as well as in utilizing people's initiative and improving the performance of managers.

[Question] But in the second half of this year the dynamics achieved in the first half began to recede....

[Answer] Yes, this occurrence threatened the good preparation of the 1984 plan, and the fulfillment of the whole 5-year plan as well. That is why the Presidium of the Central Committee and the federal government accepted measures for retaining the dynamics. This has been disclosed in a certain improvement by which, however, we cannot get lulled. The reason I am emphasizing this is the fact that some managers show a steady trend towards creating a lower outset base for the next year's plan; therefore, people are not striving too hard to surpass the tasks. I presume, however, that the implemented measures would eliminate such attitudes and that, compared with the first half of this year, the dynamics would not be markedly slackened.

But the struggle has not been finished yet. When we say that there has been achieved a certain change in people's thinking, it does not necessarily mean that this change would be always demonstrated in their everyday activities. The evidence for this is in proposals for the 1984 plan, presented by some economic production units and departments last summer. If accepted--this I can state with full responsibility--the standard of living would have to be lowered. That is to say, they proposed to produce less, demanding more: with higher demands on material, wages, imports and investments there were intended fewer products for both domestic market and export.

This all just shows that in spite of all endeavor, in spite of any explanations of our policies, in spite of all decrees and publicity, in spite of all that which is ideologically sanctioned as correct, there is no consistent implementation of these ideas in everyday life. To put it simply: the shirt is near, the skin nearer.

[Question] Comrade secretary, where do you see the main problems of this year's economic development?

[Answer] In spite of the generally successful fulfilling of the plan we cannot overlook some weak points, which have to be definitely solved. Due to insufficient implementation of the research and development results, the intensification process does not meet the needs of our developing economy. We cannot be satisfied even with the quality and technical level of products. This is the area which has to draw our attention in the first place. What it means is to implement consistently the conclusions of the Eighth CPCZ Central Committee Plenum.

Wage claims are high--it is expected that the planned wage increment will be surpassed. However, wages are supposed to give us merchandise of the kind which the consumer demands. This is not always the case. Therefore reserves, out of which almost two-fifths are finished products, keep growing. There are changes in the way production is utilized. The machine industry export into capitalist countries is dropping, and--what is worse--its structure consists of a great portion of raw materials. Many products earmarked for export were used for investment construction, which is surpassing the planned tasks. Investment construction keeps suffering from a high degree of incomplete buildings, from lengthening the building periods and from failure to observe the planned parameters. All the above are serious problems taken into consideration when preparing the 1984 plan.

Thus the evaluation of the present level demonstrates that, in spite of a series of positive results, it is necessary to put a much greater emphasis on securing the strategic policy of the 16th CPCZ Congress about the intensification of the economy and raising its efficiency. As I have mentioned before, the decisive prerequisite for doing so is to accelerate the application of research and development in production, and at the same time to deepen socialist economic integration.

[Question] When implementing the conclusions of the Eighth CPCZ Central Committee Plenum what should be given most attention?

[Answer] The principal directions are contained in the 10 items of the CPCZ Central Committee Presidium report. In our interview we can stress the main problems connected with faster implementation of the research and development results in everyday life.

First of all, the degree of concentration of our research and development base on principle tasks is very low. It is necessary to remove duplicities, to improve personnel material, to secure better instrumental equipment and to utilize more fully the possibility of research and development cooperation, especially with the Soviet Union, and the results of the world science as well. We have to uplift the information system, so that nobody would invent things discovered a long time ago. Proposals for the utilization of licenses are inadequate, too.

All of this requires building prototype workshops, pilot plants in which it will be possible to conduct proper testing of new machinery. Material motivation has to be boosted up.

We will also strengthen the role of economic research. Through reorganization there have been founded five basic economic research institutes which will help us fashion the tools of economic management and elevate the quality of planning and evaluation. They will also deal with the problems of research and development, with prices, wages, credits and solutions of financial questions.

We have to improve the technical equipment of pre-production units, thus raising their productivity. It is necessary to attract more young people to this field.

Key attention has to be concentrated on breaking down the administrative barriers, on affecting the transformation of planning methodology and changes in various wage, price and credit regulations as well. We count on it that by the end of this year some of the latter will be canceled or modified. Of special importance is to start elaborating standards and directives. That is to say, if our standards are out of order, there is no order in rewarding either, which applies also to evaluating good or bad management of both individuals and enterprises.

Quality has to be improved radically, which means elevating the production level and making technical inspection stricter. The first quality grade may be assigned only to such product which is worthy of it. It has not been the case so far; for products of allegedly high quality we pay, according to the price advantage scheme, 10 times more than we cut down on low quality products. A principle has to be enforced which states that both the national economy and we all are being considerably damaged by manufacturing flimsy products; consequently, doing so is antiparty activity.

[Question] For faster utilization of research and development results in practice it is necessary, first of all, to consistently enforce a uniform research and development policy.

[Answer] The management of science and research has to be improved, necessitating mainly an application of the goal programmatic attitude. Its base will be prognoses from which a long-term prospect will be worked out, joining a midterm plan whose axis should be the very implementation of the research and development results. This plan has to designate in a clear-cut way what is to be introduced into production and when; in this connection the necessary investment, materials, etc., have to be timely secured as well. The base for it is comprised in complex goal programs and rationalization goal programs.

All this requires, while utilizing broad feasibilities of enterprises, to strengthen the central role in managing the research and development policies as well. That is why the State Commission for Research, Investment and Development has been founded, which, in cooperation with the Czechoslovak Academy of Sciences and the ministries, will be responsible for the unfolding of research and development, and mainly for its prompt introduction into production. It will coordinate and direct research activities, and secure the implementation of research results in the state plan.

[Question] The 16th CPCZ Congress put emphasis on the necessity of eliminating the situation whereby ministries and economic production units put up with the failure of many enterprises to be flexible in introducing the research and development results into production, although there is enough evidence to prove that such actions contribute to the national economy....

[Answer] There is statistical proof for this. In 1982, 8,400 inventions were filed and 3,400 accepted, i.e., 40.5 percent, and 30.6 percent have been utilized. There were 338,000 rationalizational proposals, filed, out of which 200,000 were accepted, and 51 percent have been put to use. A serious setback is the fact that these rationalization proposals are usually being utilized only in the place of their origin.

Complex rationalization brigades are of great importance for implementing the research and development results in practice and for solving problems in production. The activity of these brigades contributes to the consolidation of the workers', scientists' and technicians' cooperation in solving concrete tasks, and helps break down department barriers.

I would like to stress the fact that the active participation of working people is required for accelerating the introduction of the research and development results into practice. It is also necessary to strengthen and improve the inspection process substantially. Without this there is no successful fulfillment, no complete knowledge of good workers and loafers, as well as able and unable managers. Many people find it convenient, but there are far more of those who are damaged by it, and that is where we have to start.

Another requirement for accelerating the application of research and development results in practice is to have initiative-taking economic managers of adequate political and professional preparation. Provided they are not up to their jobs, it is necessary to part with them in good will, or use them in other positions which would correspond to their abilities and experience. This is not a matter of age, but of attitudes and capabilities, of willingness to struggle with problems and to fulfill assigned tasks responsibly. It is demanded from everybody by the exacting plan accepted by the CPCZ Central Committee and the federal government.

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RESULTS OF 1982 FINANCIAL MANAGEMENT EVALUATED

Prague FINANCE A UVER in Czech No 9, 1983 pp 594-605

[Article by Eng Dusan Libnar: "Results of Fiscal Management in 1982"]

[Text] The year 1982, as the second year of implementation of the Seventh 5-Year Plan for the development of the national economy, represented an important stage in carrying out the objectives of the economic and social policy promulgated by the 16th CPCZ Congress. Orientation of the state plan and of the State budget toward improved efficiency and economy progressed under conditions during which the Czechoslovak economy had to come to terms with many significant problems. In particular, there was a need for overcoming the consequences of a lowered or stagnating volume of deliveries of selected raw materials and fuels and the additional significant increase in their prices. It became necessary to come to terms with the discrimination measures of capitalist states in credit policy and the influences exerted by crisis development in nonsocialist countries and those of diminished world trade on our economy.

Thus, the important result was constituted by the fact that under difficult conditions of economic development our financial relations with abroad ended with an active surplus for the first time in 8 years. Management of the state budget remained balanced with achievement of the requisite increase in social consumption, thus also preserving social securities of the populace.

In the given situation it was expedient to give preference to criteria of balanced and continuous functioning of the national economy ahead of criteria of developmental rates and channel economic development in accordance with actual conditions. Attainment of this objective was significantly contributed to by improvements in some qualitative indicators. In particular, it became possible to achieve savings of fuels, propellants and other materials costs; in this became reflected also the effects of the Set of Measures and orientation of managerial components as well as of the initiative of workers toward achieving those savings. In the interest of balanced development there also occurred limitations in capital construction, social consumption was slowed down, economy measures were adopted together with modifications of retail prices.

On the other hand, last year once again the extent of utilization of positive approaches to dealing with newly occurred problems through improved efficiency and improved utilization of the relatively strong economic potential of the CSSR, as called for by documents of the last CPCZ congresses and subsequent follow-up directives of the CPCZ and of the government, was inadequate. Thus, the foremost task remains improving the effectiveness of foreign exchange, attaining even more pronounced savings in material costs, intensifying the utilization of long-term assets and stockpiles, more economically utilizing natural resources.

Key Results of Fiscal Management

Basic indicators of fiscal management in the socialist sector (i.e., in state economic organizations, cooperatives and in banking) developed as follows (see Table 1).

Table 1. [In billions of Kcs]

Indicator	1980	1981	1982	Index 1982/81	
				Nominal	Comparable
Actual profit	143.6	141.6	157.7	111.4	103.0
Write-offs to include receipts from foreign trade	59.6	64.2	66.5	103.6	103.3
Sales tax and differences to include the domestic market	91.1	88.6	89.8	101.3	100.8
Increments in inputs and in circulating media	10.4	11.1	15.6	140.5	140.5
Investments to include accepted installment schedules	143.3	133.1	136.5	102.5	97.8
Increment in stockpiles	28.8	11.4	14.1	123.7	123.7
Social consumption by populace	140.4	151.2	162.1	107.2	103.8

Note: The comparable index listed in the table excludes effects exerted on financial indicators by moves in wholesale and retail prices and by methodological changes. An extraordinarily great effect on many financial indicators was produced by a between-the-years increase in wholesale prices to 107.6 percent. Through this move in wholesale prices there occurred increases in, e.g., outputs in state economic organizations by Kcs 53 billion, costs by Kcs 58 billion, price subsidies and supports decreased by Kcs 10.5 billion, sales tax decreased by Kcs 14.5 billion, etc. Quantification of the mentioned effects is of a rough orientational character and its quality would need upgrading. This could be significantly aided by implementation of the suggestion to compile a balance of price effects even for the actual status according to actual price indices, similarly as is done in the stage of computing planned price effects on plan indicators.

The total financial resources generated in internal economy increased last year by 8.1 percent and on a comparable basis by 4.4 percent. Internal utilization of these resources grew comparable by 2.1 percent, i.e., more slowly, because part of internal resources was used for generation of assets abroad and/or payment for foreign debts.

Results of fiscal management of state and cooperative economic organizations were of great importance to creating of balanced relations. The resultant fiscal balance of the economic sphere, i.e., the difference between financial resources here generated and used, and the indicator of fiscal demand, i.e., the ratio between financial resources used and generated, developed as follows (see Table 2).

Table 2.

<u>Economic sphere</u>	<u>1970</u>	<u>1975</u>	<u>1980</u>	<u>1980*</u>	<u>1981</u>	<u>1981*</u>	<u>1982</u>
Surplus (contribution) for society [in billions of Kcs]	38.1	45.7	52.2	57.2	69.4	76.8	81.2
Demands on finances [in percent]	69.8	73.8	74.3	72.2	66.3	64.7	63.8

*data comparable with the subsequent year

Note: Computation of both indicators includes among financial resources profit, write-offs and other income, but not sales tax, so that it is not influenced by movements of retail prices. On the use side it includes investments, increment in stockpiles and other uses.

The planned quotas were highly exceeded, particularly in generation of profit from internal economy in state economic organizations, specifically by the amount of Kcs 4.7 billion, in increase of deposits and circulating media by Kcs 4.8 billion and in generation of an active balance in financial relations with abroad. On the other hand, there was a failure in quota fulfillment, particularly in planned sales tax receipts, by Kcs 2.8 billion, and the planned increment in stockpiles was sharply exceeded by Kcs 8.6 billion. The resultant active balance in fiscal economic instruments of foreign trade in relation to the state budget (payment) was in comparison with the original plan lower by Kcs 4.7 billion. Deviations from the plan occurred also in the area of investments, where expenditures for investments by economic organizations were exceeded by Kcs 1.7 billion and expenditures of budgetary and contributing organizations were now drawn upon to the extent of Kcs 1.9 billion.

Results of State Budgets Management

In 1982 it again became possible to balance state budgets, constituting without a doubt a stabilizing element of our economic development, even though the above-mentioned measures contributed to achieving of this balance. However, of

basic importance to the attainment of a balanced budget were solidified relations between the development of payments and allocations in economic organizations.

An overall outline of the results of budget management in 1982 is offered in Table 3.

Table 3 [In billions of Kcs]

Indicator	Budget 1982	Actual 1982	Differ- ence	Met by [%]	Index 1982/ 1981
Revenues					
--state budgets	201.47	205.03	+3.56	101.8	98.6
--national committees' budgets	104.77	109.17	+4.40	104.2	105.3
--total	306.24	314.20	+7.96	102.6	100.8
Expenditures					
--state budgets*	201.47	204.96	+3.49	101.7	98.6
--national committees' budgets	104.77	109.08	+4.31	104.1	105.8
--total	306.24	314.04	+7.80	102.5	101.0
Surplus					
--state budgets	--	+0.07	+0.07	--	--
--national committees' budgets	--	+0.09	+0.09	--	--
--total	--	+0.16	+0.16	--	--

*without national committee allocations and subsidies

The integrating and coordinating function of the state budget of the Czechoslovak federation became applied in our budgetary system in keeping with intensification of planned management. The share of state budget revenues of the Czechoslovak federation in the overall revenues of all three state budgets was 63.4 percent, its own expenditures represent 20.1 percent (21.7 percent in 1981). The major part of state budget expenditures of the Czechoslovak federation was directed in the form of allocations into the budgets of the republics. In 1982, as in the preceding years, these allocations were made to the republics in the full planned extent, as can be seen from Table 4.

Table 4.

Indicator	CSSR		CSR		SSR	
	Actual 1982	Met by [%]	Actual 1982	Met by [%]	Actual 1982	Met by [%]
	[bil. Kcs]		[bil. Kcs]		[bil. Kcs]	
Own state budget revenues	169.59	99.7	70.82	104.0	26.98	104.1
Allocations from federal budget	--	--	67.20	100.0	48.67	100.0

Total state budget revenues	169.59	99.7	138.02	102.0	75.65	101.4
Own state budget expenditures	53.68	98.8	95.75	103.4	55.54	101.7
Allocations to state budgets of republics	115.87	100.0	--	--	--	--
Allocations to budgets of national committees	--	--	42.25	98.9	20.10	100.6
Total expenditures of state budgets	169.55	99.6	138.0	102.0	75.64	101.4
Surplus of state budgets	0.04	--	0.02	--	0.01	--

Profit

The development of posted and actual profits in state economic organizations, cooperative organizations and banking in 1982 is shown in Table 5.

In the achieved, relatively slow, rate of growth of real profit (+3 percent) occurred mutual compensation of many contradictory effects. Of greatest positive significance were savings of material costs within the economy, while other costs increased. There was a rapid growth of profits in banking, reflecting a reduction in foreign debts of Czechoslovak banks as well as reduction of interest rates on money markets. On the other hand, unfavorable development of the effectiveness of foreign trade continued due to deteriorated exchange conditions, because on the whole import prices increased faster than price of exports.

Table 5. [In billions of Kcs]

Indicator	1981	1981 Recom- puted to 1982 Condi- tions	1982	Index	
				Nominal	Compar- able
Posted profit,	124.5	124.2	129.2	103.8	104.0
of which SHO*	99.9	97.0	100.6	100.7	103.7
Payments from receipts and expenditures**	59.3	58.5	54.9	92.6	93.8

* State economic organizations included in the fiscal plan

**to include contribution to social security (in 1982 it amounted to Kcs 34.5 billion), also including the balance of fiscal instruments of foreign trade and including reserves which reduced the posted profit.

Allocations to receipts and expenditures	-48.5	-35.9	-33.4	68.9	93.0
Social consumption of expenditures	12.6	12.6	13.7	108.7	108.7
Payments from special compensations fund	-6.3	-6.3	-6.7	106.3	106.3
Actual profit (1 through 5)	141.6	153.1	157.7	111.4	103.0

Development of Profit and of Expenditures in State Economic Organizations

The key share in profit increment accrued last year to savings of the costs of materials. The stake of organizations in adjusted value added, applied within the Set of Measures, Promotes material savings.

While in 1976-1980 the percentage of cost reductions in state economic organizations amounted to an average 0.52 percent annually, in 1981 it amounted to 1.55 percent and in 1982 to 1.45 percent. However, the methods for achieving such savings call for a deeper analysis. From the viewpoint of last year's development, material costs constituted the only source of reduction in costs. Faster growth in write-offs and financial costs than that of outputs has been persisting for a long time. Contrary to the Sixth 5-Year plan, when the share of labor costs in outputs was regularly reduced between years, in 1981 and 1982 there occurred a relative increase in labor costs at low output rates. However, labor costs showed a slower increase than adjusted value added (see Table 6).

Table 6. [In percentages]

<u>Indicator</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Index of increase between years*						
outputs	105.9	105.1	104.0	103.7	101.9	100.6
total costs	105.2	104.4	103.4	103.7	101.1	100.3
Profit	113.6	111.2	109.0	104.0	109.1	103.7
Percentage of total cost reduction	-0.70	-0.62	-0.56	0.00	-0.70	-0.33
of which:						
materials costs (without write-offs) and services	-0.28	-0.64	-0.89	-0.60	-1.55	-1.45
write-offs	--	+1.83	+3.40	+3.72	+4.64	+4.32
labor costs	-1.21	-1.06	-0.58	-1.10	+0.15	+2.11
financial costs	-2.86	-0.69	-0.69	+5.42	+0.37	+1.88

*Development in state economic organizations included in the fiscal plan is rated by means of comparable indicators (excluding methodological, price and organizational effects).

Even though the conditions for growth of real profits undoubtedly deteriorated in the last several years, it ought to be recognized that many hidden resources in our economy fail to be utilized.

Great potentials are hidden in the disproportionately high demands of our production on materials and energy. In inadequate utilization of the qualifications of personnel, working hours, production potential in capital assets, etc. For example, it is estimated that the demand on energy, processed and raw materials per unit of production is higher by one-third to one-half in the CSSR processing industry than in other industrially advanced countries. This calls for dealing with the discrepancy between a high level of energy and material inputs and their low level of valorization by transition to a more labor-intensive and less material-intensive assortment of products. This is also the prerequisite for improved utilization of the relatively high qualifications of personnel that represent one of our key untapped resources.

In the interest of implementing the requisite changes in the structure of production and improving efficiency, there will be a need for continued expansion of our participation in international division of labor, primarily as part of socialist economic integration.

The key factor of intensification that must find substantially increased application is scientific and technological progress. Noninvestment expenditures for science and technology increased last year by 3.4 percent and reached the amount of Kcs 17 billion. Of the latter, Kcs 6.8 billion accrued to the state budget and Kcs 10.2 billion to own resources of organizations. This involves a relatively high sum of money, even from the viewpoint of international comparison. However, the problem is to achieve for society a faster return of these means and to achieve better results. This will call for specification by all levels of management of the resolutions of the Eighth Plenum of the CPCZ Central Committee which dealt with problems of accelerated application of the results of scientific research and technological development in practice.

Factors Adversely Affecting the Effectiveness, Generation and Utilization of Financial Resources

Nationwide fiscal management must compensate every year for many deteriorating effects that occur due to both external and internal causes. Compensation for these deteriorating effects has been swallowing up over the past several years a considerable part of the increment in financial resources which otherwise could have been used for developmental needs of the Czechoslovak economy and for promotion of the standard of living.

From among these deteriorating effects, of greatest importance since 1974 has been the systematic deterioration of the effectiveness of foreign trade that became reflected in the deteriorating relations between import and export prices. Last year the overall exchange relations also deteriorated.

Nevertheless, long-term deterioration of exchange relations is not the consequence merely of the external movement of world prices that is independent of us, but also of the inadequate capability of some of our organizations to

compete. That involves, on the one hand, unsatisfactory technoeconomical standards of some products, esthetic properties of consumer goods, delivery deadlines, replacement parts, servicing, etc., but also the attained prices. It is specifically comparison of attained prices and their development with top competition that summarily indicate the level of management. For that reason the criteria of efficiency of foreign trade must be regarded as foremost and practical conclusions must be deduced from them in regard to the structure of production and of exports, for orientation of the system of incentives also toward assessment of organizations' activities.

Of essential importance is implementation of the requirement that all economic production units and significant export enterprises and OZO's [foreign trade organizations] keep a routinely updated set of comparative studies of their products vis-a-vis worldwide competition and a comparison of prices achieved in exports with prices charged by competition and that they deduce from these comparisons the requisite conclusions and measures. No organization can be considered to be well managed if it is not competitive in exports and achieves lower prices than leading exporters.

From among other factors that detrimentally affect development and effectiveness ought to be mentioned the fact that there is no shortage of organizations which lower their profit and increase expenditures.

It is primarily due to increasingly difficult extraction conditions that costs of coal mining are increasing. Last year this increase represented Kcs 1.8 billion. For example, over the past 5 years the costs per ton of coal went up by 36.4 percent in OKD [Ostrava-Karvinna Mines] and 45 percent in the SHD [North Bohemian Lignite Mines].

Among other branches that show a long-term deterioration in their obtained results is housing management--last year its losses increased by Kcs 0.2 billion--and mass urban transportation whose losses also increased by Kcs 0.2 billion. In housing management, as it is also in urban mass transportation, their operational costs are covered roughly only by one-half of their attained outputs.

In addition to factors adversely affecting effectiveness that can be quantified, consideration must also be given to those the extent of which cannot be represented in numbers, or only partially, or by estimate. Among the latter belong particularly multiplying ecological problems and the lagging infrastructure in some sectors. These areas are starting to affect both the standard of living as well as the dynamism and effectiveness of the process of economic renewal adversely. For example, the annual extent of damages caused by industrial pollutants is estimated at Kcs 3 billion in the CSR alone. For that reason, problems of environmental protection will have to receive greater attention than they did up to now.

Economization Measures

The economization program adopted by the government on the whole met with success in 1982. There occurred a decrease in the number of personnel in the sphere of management and administration, there was a decrease in the number of passenger automobiles used for official purposes, savings were achieved in

comprehensive travel expenses, for advertising, entertainment and presents and trips abroad.

A certain measure of results was achieved in the area of more effective management of computer technology and in rendering the administrative demands of management more efficient. However, meeting of tasks of a more long-term nature will be possible only after a longer period.

Implementation of economy measures is of importance not only as one of the methods for achieving a certain financial contribution, but also as one of the instruments promoting creation of an atmosphere conducive to economy. Thus there is a need for their continued implementation and improvement.

Preferential Pricing

There is a continuous increase in the volume of preferential pricing for products that are technically advanced, are of high quality as well as for fashion and luxury products. Penal price reductions for products that are technically obsolescent, of poor quality and hard to sell are much lower and, for all practical purposes, has been stagnating (see Table 7).

Table 7. [In millions of Kcs]

<u>Indicator</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Preferential pricing	1,353	2,153	2,923	3,568	4,064
Penal price reductions	128	117	76	129	61
Losses from poor-quality products	--	1,135	952	822	937 ^a

^aThe between-years increase of Kcs 115 million applies to the Federal Ministry of the Electrotechnical Industry; no significant changes occurred in other sectors under ministerial jurisdictions.

The development and mutual relation between preferential pricing and penal price reductions, just as data regarding losses due to poor-quality production, would tend to indicate sharp increases in high-quality production and stagnation in poor-quality production. However, the level of the domestic market and, particularly, confrontation of our exports with foreign markets to not bear this out. Although preferential pricing in 1982 amounted to only 0.36 percent of the output volume, if we compare the increment in preferential pricing with the increment in outputs and profit, it turns out that 7.3 percent of the comparable increment in outputs between years were achieved by increases in preferential pricing.

Sales Tax

Development of sales tax is characterized by the data in Table 8.

Table 8.

<u>Indicator</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Sales tax collections and domestic market differences [billions of Kcs]	84.2	88.6	91.1	88.6	89.8
Tax on OC [%]	26.7	27.9	27.9	26.4	23.7
Negative tax volume [billions of Kcs]	8.1	7.8	7.3	8.8	15.6

One of the main causes for the sales tax decrease in 1982 was a reduction in deliveries for the domestic market (for the centrally controlled industry the index in wholesale prices amounted to 99.4).

The average tax burden on products decreased by 2.7 points in comparison to 1981 due to increases in wholesale prices, in spite of the fact that there occurred an increase in retail prices. Development of sales tax was affected detrimentally also by changes in the structure of deliveries. A relatively conspicuous change occurred in the structure of demand by the populace as the result of modifications of retail prices, directed from the sales tax viewpoint toward products subject to lower taxation.

The highest absolute sales tax yield in 1982 was achieved in gasoline and petroleum (Kcs 18.1 billion), in passenger cars including replacement parts and tires (Kcs 7.2 billion), in alcoholic beverages (Kcs 15.1 billion), in coffee (Kcs 3.2 billion) and cigarettes (Kcs 5.3 billion). Around 60 percent of the overall sales tax yield are collected from the preceding items.

Last year's development showed that more respect must be paid to sales tax criteria as one of the key financial resources of our society. Price control must also be directed toward sales tax, particularly to ensure that it is not diminished by hidden increases in wholesale prices.

Investments

Long-term increases in investments that exceeded the rate of growth of the national income were stopped in 1981 and investment activities were further curbed in 1982. The measure of investments returned to its approximate level of the early 1970's.

Financial expenditures for investments in the socialist sector dropped comparably by 2.2 percent. With this reduction there also occurred significant structural changes in the distribution of investment activities. There was a particular increase in the share of fuels and energy in overall investments, while the share of investments into the nonproductive sphere declined.

Despite the decline in investment activities, expanded replacement of fixed assets remains intact. Expenditures for investments in state economic organizations amounted to Kcs 95.5 billion and write-offs to Kcs 57.4 billion, so that the measure of expanded replenishment amounts here to 40 percent.

Write-offs increased in 1970-1981 at an average by 7.4 percent and became the fastest-growing financial recourse, exceeding even the rate of growth of real profit, which increased in the same period by an average 5.4 percent (comparably). This fast growth of write-offs reflected in particular the fast and, to a considerable extent, extensive character of capital investment. During last year the rate of growth of write-offs began to drop (comparably to 4 percent), so that with the corresponding time lag there is starting to appear a drop in investment activity.

In view of the wave of investments in previous years, a relatively fast growth in fixed assets continued last year in economic organizations (by 5.2 percent in procurement prices, by 4.5 percent in residual prices) with a further drop in its effectiveness. This deterioration cannot be ascribed only to their utilization and technoeconomical level, but was caused also by a slowdown in the development of the economy.

Despite the fact that there appeared a certain measure of improvement last year in indicators of simultaneously ongoing unfinished construction, and that the average time for completion of capital construction showed a decrease, these results cannot be considered adequate. There also persists a failure in meeting the deadlines for launching new capacities into operation and, particularly, their planned technoeconomical standards often fail to be reached.

In comparison with 1980, trends in the changing structure of sources for financing investment needs continued in state economic organizations in 1982. The share of allocations from the state budget declined (from 19.5 percent in 1980 to 11.6 percent in 1982) and, in keeping with the Set of Measures, there occurred an increase in participation of the organizations' own resources in financing of investments (from 45.7 to 55.5 percent), facilitated also by the granting of reduced profit-sharing payments (in 1982 in an amount of approximately Kcs 3.2 billion).

Development of sources for financing investment needs in 1980-1982 is shown in Table 9.

Table 9. [In billions of Kcs]

Indicator	Actual			Difference		Index	
	1980	1981	1982	1981-82	1982-80	1981-1980	1982-1980
Sources for coverage of investment needs:							
--allocations from tax budget	25.14	13.55	14.17	-11.59	-10.97	53.9	56.4
--investment credits	30.14	23.96	27.26	- 6.18	- 2.88	79.5	90.4

--own resources (profit and write-offs)	58.76	70.48	68.01	+11.72	+ 9.25	119.9	115.7
--other own resources to include redistribution	14.40	13.56	13.16	- 0.84	- 1.24	94.2	91.4

Inventories

Dynamism in the growth of inventories still remains relatively considerable (see Table 10).

However, some positive changes appeared in the development of inventories last year. Inventories increased particularly in agriculture, by Kcs 7.9 billion, as a result of an improved harvest. They also showed a partial increase in trade, even though here the growth of the overall volume of inventories by itself cannot solve the problem of their unsuitable structure. In industrial sectors the development of inventories improved, and this improvement became reflected also in the turnover of inventories which became accelerated in the industry as a whole by 0.4 day.

Table 10.

State economic and cooperative organizations total*	Annual Average				
	1976	1976-80	1976-80	1981	1982
a) Increment (in billions of Kcs)	19.7	86.6	17.3	9.9	16.3
b) Increment (in percent)	6.7	26.9	4.9	2.4	3.8

*after exclusion of price effects

Utilization of inventories deteriorated in the construction industry (by 2.6 days). In industry and construction the overall turnover of inventories over the past several years has been developing (under routine conditions) as shown in Table 11.

Table 11: Inventory Turnover Time [in days]

<u>1975</u>	<u>1980</u>	<u>1980*</u>	<u>1981</u>	<u>1981*</u>	<u>1982</u>
91.4	99.9	97.3	100.1	101.2	101.4

*under subsequent year's conditions

The key reason for low utilization of inventories remains, first of all, the discord between supply and demand; this is a further manifestation of the detrimental effects of changes in plans and in production programs, shortcomings in

the investment area, low level of standardization, inadequate surveying of demand and the poor adaptability to changes connected with it. Negative effects are also exerted by the unsatisfactory performance of marketing and supply organizations, etc. Solution of these problems calls for continued concentration of attention by all levels of management.

Unrealized Buying Power of the Populace

Last year's increment in deposits and money in circulation on the order of Kcs 15.6 billion was the largest ever. Thus, the previously observed trend, namely that increases in living expenses lead the populace to limiting of savings, reversed itself last year and, to the contrary, the attained measure of savings was the highest since 1977 (see Table 12).

Table 12. [In percent]

Indicator	1966-70*	1971-75*	1976-80*	1981	1982
Measure of total savings	3.6	4.6	3.2	3.0	4.1
of which: deposits	2.8	4.0	2.5	2.5	3.3
cash	0.8	0.6	0.7	0.5	0.8

*annual average

The volume of unrealized buying power of the populace reached by the end of last year Kcs 221.6 billion, of which Kcs 178.8 billion accrued to deposits and Kcs 42.8 billion to currency in circulation. The state of loans extended to the populace reached Kcs 35.4 billion and increased last year by 4.7 percent.

Supplies for the domestic market were on the whole continuous last year, but there was no measurable improvement in meeting the demands of the populace in their assortment. For that reason the important task remains providing of the requisite volume and structure of consumer goods inventories to maintain stability of the domestic market.

Public Consumption by Populace

Expenditures from the state budget for public consumption by the populace increased last year by 7.4 percent. However, this rapid growth was substantially affected by price movements and compensatory measures in social incomes of the populace which were adopted during last year's increase in retail prices. After exclusion of these effects expenditures from the state budget for social services and activities for the populace increased by 2.4 percent, representing a slower rate than in the preceding 5-year plan.

Expenditures of economic organizations for public consumption met from their costs or from the cultural and social services fund continued the almost disproportionately rapid growth established over the past several years. Their increment amounted to 6.1 percent (see Table 13).

Table 13. [In billions of Kcs]

Indicator	1970	1975	1980	1981	1982	Index 1982/81	Comparable Index 1982/81
Noninvestment expenditures of CSSR trade-union and enterprise organizations for social services and activities for populace	77.7	100.8	130.5	133.1	142.9	107.4	103.4
of which:							
social security	41.9	53.7	70.5	71.9	77.9	108.3	102.3
education	12.7	17.4	22.4	22.9	24.0	104.8	102.0
health care	10.7	15.6	20.3	20.8	22.0	105.8	104.3
culture	2.3	3.8	4.4	4.5	4.5	100.0	102.0
Public consumption by enterprises	4.0	6.2	9.9	18.1	19.2	106.1	106.1
including:							
from costs	1.6	2.8	11.8 ^a	12.6	13.7	108.7	108.7
from culture and social security	2.0	2.6	3.9	4.2	4.1	99.1	99.1
from economic results	0.4	0.8	1.4	1.4	1.4	100.0	100.0
Total	81.7	107.0	140.4	151.2	162.1	107.2	103.8

^amethodological change

Note: The presented outline does not include public consumption by budgetary organizations, nor public consumption met from own resources by the Revolutionary Trade Union Movement and other mass organizations. Growth in public consumption by enterprises met from costs was affected between 1980 and 1981 also by a change in the methodology of its posting--expansion by some social program items.

The share of unpaid-for consumption by the populace (noninvestment expenditures for social services and activities for the populace without expenditures for social security plus expenditures for public consumption by enterprises) in paid-for consumption by the populace (expenditures by the populace for goods and services) developed as shown in Table 14.

Table 14: Relation Between Unpaid-for and Paid-for Consumption

1970	1975	1980	1982
20.6	21.4	23.1	29.3

The above-listed data bear out the fact that despite a certain limitation of public consumption covered from the state budget, the growth of expenditures for public consumption in its overall extent remains relatively rapid. This growth exceeds the rate of growth of the financial resources of society, so that from this viewpoint public consumption is accorded a certain measure of priority ahead of other expenditures.

The objective nature of the growth of various expenditures for public consumption is not equal. The most objective character accrues to growth of expenditures constituted by demographic factors (numbers of retired personnel, children, etc.). Some components of public consumption (income security, health care) must also develop in the requisite relation to other components of the living standard and nominal income, because they provide social security for the populace. Of importance is also the relation of individual types of public consumption to reimbursed consumption, so as not to interfere with the motivational role of earned income.

The financial resources which our economy has at its disposal for domestic needs are increasing at a relatively slow rate at the present. This poses the question whether in the sphere of public consumption the growth of its individual components should not be more differentiated according to criteria of social priorities. For example, a certain lag behind other components of the standard of living or the level of earned income is becoming reflected in the sphere of retired and sick pay, measures promoting population growth and, partially, health care, while in other spheres of public consumption limitations to the growth of expenditures for them can be applied without detrimental effects on the quality of services and endangering the social security of the populace. In some sectors of public consumption it would be expedient to combine--while maintaining social security--non-reimbursed services with reimbursed services which should at the same time positively influence the balance of incomes and expenditures among the populace.

Property Management

Property of the socialist sector increased in 1982 by 4.5 percent (see Table 15).

Table 15

<u>Indicator</u>	<u>1 Jan 82</u>	<u>31 Dec 82</u>	<u>Increment</u>
Fixed assets and investments in procurement prices	2,410.6	2,536.6	126.0
Depreciation of fixed assets	-796.6	-845.8	-49.2
Inventory, including accounted for pending deliveries	470.3	486.8	16.5
Value of tangible property	2,084.3	2,177.6	93.3

The greatest part of property in the socialist sector is held by state economic organizations (1,487 billion), budgetary organizations (341 billion), cooperatives (210 billion) and housing cooperatives (kcs 101 billion.)

In overall assessment the results of last year's fiscal management can be rated as positive, particularly due to the fact that under deteriorated conditions there occurred an improvement in the balance of financial relations abroad, and growth in public consumption provided social security for the populace. This result was shared in, on the one hand, by improved internal effectiveness and, on the other hand, by implementation of the requisite restrictive measures. This contributed to creating the prerequisites for renewing the dynamics of the growth of national income and of personal consumption in 1983.

However, the fact remains that active factors exerted relatively little weight in dealing with current economic problems and, particularly, that the process of promoting the growth of effectiveness was not applied with adequate intensity. This applies particularly to the effectiveness of foreign relations and to utilization of the relatively strong potential of our economy.

In our opinion, from last year's results it can be deduced that solutions to long-term as well as acute problems of our economy can be sought in:

- the macroeconomic proportions of the structure of Czechoslovak economy, which in conflict with its natural conditions is excessively oriented toward energy- and material-intensive products with a low share of value added and a low level of utilization of qualified manpower;

- the economic mechanism which today evaluates the activity of enterprises according to internally devised criteria for planning which, however, differ greatly from the criteria for the capacity to compete on the world's markets;

- creating in this context a demanding economic climate and promoting criteria for effective economic behavior, particularly decisionmaking based on economic calculations, supporting the viewpoints of socialist enterprise, performance, result, level of activity, expedient and flexible reaction to a change in conditions, all of which are a typical feature of modern economic life affected by the heretofore unprecedented tempestuous development of science and technology and their expedient application in practice.

Detailing problems of a strategic nature will require a certain amount of time. But that, however, should not be a cause for wasting time--the closing years of the Seventh 5-Year Plan should be fully used for the implementation of micro-structural changes fulfilling the criteria of effectiveness. At the same time the starting point must be realization of the fact that there is occurring a continuous generation of new developmental factors that can become generated in a considerably greater extent than was the case up to now. Their utilization calls for selecting the easiest and most natural approach for society--priority utilization of the most effective factors and concentrating on them all available financial and material resources.

CZECH NATIONAL COUNCIL APPROVES 1984 BUDGET

Prague RUDE PRAVO in Czech 20 Dec 83 pp 1, 2

/Report from the 11th session of the Czech National Council by RUDE PRAVO correspondent (zve): "CSR Budget Approved"/

/Text/ Prague, 18 December--The Czech National Council discussed Monday the proposal for the state budget of the Czech Socialist Republic for 1984. On the first day of its 11th session the deputies also approved an amendment to the law on registration of real estate. Josef Kempny, a member of the Presidium of the CPCZ Central Committee and the chairman of the CNR /Czech National Council/, welcomed at the session the CSR Government, led by its Chairman Josef Kocak, member of the Presidium of the CPCZ Central Committee, representative of governmental agencies, political parties and public organizations of the National Front, and other guests.

The CSR state budget for 1984 sets the revenues and expenditures at the amount of Kcs 147,479,700,000, and thus it is balanced.

The budget contains grants from the state budget of the federation in the amount of Kcs 74.718 billion and the following financial relations to the budgets of national committees: unallocated grants in the amount of Kcs 26.049 billion and allocated subsidies in the amount of Kcs 23.357 billion.

The minister of finances of the CSR, Jaroslav Tlapak, commented on the proposed state budget of the CSR for 1984.

From the Comments by the Minister of Finances

While preparing the projected proposal we consistently proceeded from the concepts, objectives and goals of the economic policies outlined by the 16th CPCZ Congress and specified in individual sessions of the CPCZ Central Committee. We presume that the revenues and expenditures of the CSR state budget for 1984 will be balanced, namely, at Kcs 147.5 billion. Together with the revenues of national committees and state funds, the basis of the budgetary system of the CSR will amount to Kcs 176.3 billion.

The most dynamic factors of the state revenue are those derived from our socialist economy. In 1984 they will cover 56.5 percent of internal budgetary incomes.

Our plan for profitmaking of state economic organizations managed by the government of the CSR calls for Kcs 34.8 billion. It will increase 5.6 percent over 1983 and will be based mostly on relative savings, particularly of material and operational costs.

We provide financial support for the most efficient branches. Here we are trying to differentiate consistently the amounts of resources granted from the state budget for research and development implemented in individual branches according to their societywide contribution.

In the proposal of the state budget for 1984 we allocated for research and development Kcs 1.9 billion in noninvestment expenditures. Furthermore, an additional Kcs 2.4 billion from internal resources of the ministries, VHJ's /economic production units/ and enterprises will be spent for the area /of R&D/.

Research and development and comprehensive modernization of the economy are closely linked with the focus on capital investment. Not counting organizations managed by the federal government, investments planned on the territory of the CSR will amount in 1984 to Kcs 65 billion.

An important means for improving the efficiency of our national economy is better use of supplies. As compared with 1983, the mandatory indicator for the turnover of supplies has been reduced so that in 1984 the inventories will reach only the 1982 level. Punitive interest for drawing higher credits will be fully reflected in a lower applicable volume of wages payable.

The volume of the budgets of national committees for 1984 is set at Kcs 76.8 billion. The CSR state budget will cover more than 64 percent of their outlays. The unallocated grants will total Kcs 26 billion and allocated subsidies Kcs 23.4 billion. Almost 36 percent of the expenditure of the budgets /of national committees/ will be covered from their own revenues.

National committees are facing great challenges in housing construction. The state plan anticipates that in 1984 more than 55,000 families will obtain a new apartment. We shall begin the construction of an additional 63,000 housing units. Modernization of the existing housing calls for our increased attention.

According to our plans for 1984 national cash earnings will be up Kcs 3.8 billion, i.e., 1.4 percent, of which personal wages will increase 0.9 percent and transfer income 2.6 percent. Retail sales will increase Kcs 3 billion in 1984, which represents a growth of 1.6 percent over 1983.

We earmarked Kcs 92.8 billion from the main branches of our public services for 1984, i.e., for social security, education, health care and culture. This is 1.9 percent more than in 1983. We shall expend for social security Kcs 58.2 billion, an amount that is not negligible. We shall pay more than 2.85 million retirement benefits. The average old age benefit will increase to Kcs 1,293. We shall provide treatment in health resorts for more than 220,000 working people. We allocated Kcs 11.4 billion for direct aid to families with children and for support of the population, which corresponds with the projected 142,500 births. The sum of Kcs 15.9 billion is reserved for our educational system. Kcs 16 billion are designated for the needs of our health system; we shall spend Kcs 2.7 billion in noninvestment costs for culture.

Position of the CHR Committees

Joint reporter Miroslav Mrazek acquainted the deputies and guests with the position of the CHR committees. Among other things he stressed that in general good stewardship is, and must be, an imperative attribute of all our future activities. However, the increasingly demanding tasks in meeting the demands call for further advance and for support of the further development mainly by exploitation of comprehensive mechanization and automation based on microelectronics, on widespread introduction of industrial robots and manipulators, on the development and application of new scientific disciplines, such as biotechnology and genetics, and on enforcement of the development of those processes that are more efficient in terms of raw materials and resources of energy and, at the same time, that greatly enhance our production.

He noted that the condition determining the fulfillment of all challenging tasks in 1984 is our organizational and managing work. Unambiguously societywide interests must be consistently enforced everywhere, on every level of management, and national economic priorities must be always respected in the sense of the adopted political principles. This consideration must go hand in hand first of all with observation of discipline in planning and with insistence on responsibility for the implementation of the party's policies above all on the part of our economic managers. By their own decisions on specific issues economic managers must help resolve primarily our societywide needs, consistently subordinate the interests of their enterprises, VNH's and ministries to the interests of all of our national economy, and at the same time proceed vigorously and with imagination in seeking concrete solutions in the given circumstances.

[text missing] The tasks of our economy demand this. Deputy Josef Hanzelka spoke about the problems of quality of consumer goods, their innovation and exports. Deputy Olga Skarydkova outlined the main tasks of our domestic trade and at the same time called attention to the shortcomings in the structure of the supply and in the quality of goods, which evoke justified complaints from our citizens. Budgeting the economy of our national committees was the topic of the address by Deputy Jiri Freyberk, who stressed that our national committees are facing a great challenge in the modernization of existing housing which, however, is still lagging far behind the original schedule. Deputy Marta Kotasova emphasized the need of good stewardship of public funds expended for health and social services. She noted with satisfaction that a major part of such outlays is designated for treatment in health resorts on the basis of the so-called "summons," particularly of children. Deputy Jaroslav Kolarik dealt with the problems of our water economy and protection. In particular he stressed the negative effects of pollution on the cultivation of our forests. Deputy Zdenek Horení, who was the last to speak at the meeting, analyzed the problems of efficiency and efficacy of expenditures for culture and the media.

The deputies then unanimously approved the proposal for the state budget of the CSR for 1984.

On Registration of Real Estate

The Minister of Justice of the CSR, Antonín Kaspar, explained the governmental proposal for the law of the CNR on registration of real estate. It is a simple

legal adjustment in conjunction with the amendment of the code of civil law. The submitted proposal for the law adapts the procedure for registration of legal transactions concerning real estate. Such entries may now be made also on the basis of written notices of the citizens, accompanied by a certificate from the office of the state notary. Reporter Vlasta Matejkova presented the recommendation of the CNR committees, after which the deputies approved the legal amendment.

Following the report on activities of the Presidium of the CNR over the past period, the session was adjourned. It will resume on Tuesday.

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The Presidium of the CNR met on Monday under the chairmanship of Josef Kempny to proclaim the laws approved in its 11th session.

9004

CSO: 2400/156

ACHIEVEMENTS, GOALS OF CHEMICAL INDUSTRY HIGHLIGHTED

Budapest NEPSZABADSAG in Hungarian 11 Jan 84 p 1

[Text] The chemical industry achieved favorable results last year: production increased by 2 percent in 1983; non-ruble accounting exports exceeded those of 1982 by 16-17 percent, and, since imports remained at about the 1982 level, the balance of the industry improved considerably. Growth in exports were contributed to chiefly by the petroleum processing industry as well as the pharmaceutical and rubber industries. Exports to ruble accounting countries increased by 20 percent; imports, by 10-13 percent. The principal export item consisted of plant protective agents worth 102 million rubles. These were shipped under the terms of the Soviet-Hungarian agrochemical agreement. A number of important investments were completed last year including the 40,000-ton polypropylene plant of the Tisza Chemical Combine, the Cavinton [an antisenility preparation] section of the Kobanya Pharmaceutical Factory and a number of synthetic material processing shops. These new establishments will provide the basis for noteworthy exports in the more distant future as well make possible the replacement of imports. Processing of synthetic materials increased by 2,000 tons at the Tisza Chemical Combine obviating the need of imports worth 200 million forints. By producing food industry powder mixes, drain pipes and other plastics, the Borsod Chemical Combine saved imports worth 350 million forints.

Vigorous expansion of exports as well as production of substitutes for imports will remain the basic task of the chemical industry in 1984. At the same time the industry must strive to make more highly processed, more valuable products from the basic material used. The branch will continue to develop at a higher rate than industry as a whole. Its production, in terms of fixed prices, will increase by 2 percent, ruble accounting exports by 10-11 percent and non-ruble accounting exports by 5-6 percent.

The petroleum processing industry will process 8.5 million tons of petroleum in 1984. The catalytic cracking plant which makes gasoline and diesel oil from fuel oil at the Danubian Petroleum Industry Enterprise will be completed during the second quarter of this year and this will lead to more white products.

Expansion of processing is the primary task in the synthetic materials industry. The finished products made from domestically produced PVC, polyethylene and polypropylene besides replacing imports can lead to substantial reduction of material and energy use provided that use of plastics becomes widespread. More

basic materials will be exported: once production at the new polypropylene plant of the Tisza Chemical Combine is in full swing, it will be possible to export 40,000 tons of modern products. The plant protective agent and pharmaceutical branches of the chemical industry are to concentrate on increased export of pharmaceutical products, especially packaged medications. The fact that sales of Cavinton have begun in Japan on the basis of a license agreement is a notable achievement. The Chinoïn Factory has established a joint enterprise with Johnson Was [sic]; their first joint product will be Jumex [an anti-Parkinsonianism type preparation] which was originated at the Chinoïn Factory and which will appear on U.S. markets this year. Export of plant protective agents will also increase, primarily on the basis of the agrochemical agreement.

One of the main tasks in the production of chemical fertilizer is full utilization of capacities for making powdered superphosphates. This will make it possible to curtail imports of phosphorous fertilizer. The goals insofar as production of nitrogen fertilizer is concerned are to increase competitiveness through improved quality, greater selection and better packaging.

CSO: 2500/172

BOBROWSKI REACTS TO INITIAL PRICE HIKE PROPOSALS

Warsaw ZYCIE WARSZAWY in Polish 3-4 Dec 83 p 3

[Interview with Czeslaw Bobrowski, chairman, Economic Advisory Council, by Henryk Chadzynski]

[Text] [Question] In your last interview for ZYCIE WARSZAWY, you promised that in the future you would comment about the planned price increases. What do you think about the new price proposals and the discussion which has developed since they were announced?

[Answer] The first thing I would like to stress is that I consider the opinion poll on the new prices to be a good idea. I have been following the press and television discussion on this subject very carefully. However, I am interested in this question for rather special reasons. What interests me is not just food prices, but more general matters as well. As General Jaruzelski once put it, the government has to work "with curtains raised"; this is a condition for democracy. Public knowledge of economics is the second condition. You have to understand the situation to involve yourself in democratic processes. It would be a bit much to demand that citizens study economics and pore over statistical yearbooks. But since it concerns everyday problems, the poll on prices is an excellent opportunity for people to acquire more information and improve their knowledge of economics.

[Question] What conclusions would you draw from the public reaction to the new price proposals?

[Answer] That social consciousness is not as low as many people seem to think, but neither is it as high as we would like it to be. I was very struck by the fact that many respondents agree, however unwillingly, with the principle that price rises are necessary. They just want the price increases to be low, so that they don't hit their family budgets too hard. They understand, however, that price increases are unavoidable. But there are still some people who see these problems in a false light. For instance, I once encountered the proposal that there should be redenomination instead of price increases. This is a misunderstanding, caused by the fact that in 1953, redenomination was accompanied by price increases which proved too high and had to be lowered afterwards.

Yet today the economic situation is different and an operation of this kind would not produce the desired effect. But there have been some interesting contributions to the discussion, too. People ask whether it is possible to avoid food price increases by raising the prices of other articles instead. This idea deserves attention, in fact, in my opinion it's actually correct to a certain extent. But it's impossible to avoid food price rises altogether. If we decided not to change the price of food and some other goods considered to be necessities, the price of other articles would have to shoot up.

[Question] But if the price of manufactured goods increased faster than food prices, the relationship between them would deteriorate even further. Food in Poland is still relatively cheap compared to expensive manufactured goods.

[Answer] You're right, of course, in saying that the relationship between the prices of food and manufactured consumer goods should also be taken into account. But we don't realize the extent of the changes that have taken place in this relationship compared to 1973, when living standards were approximately the same as they are today, since the crisis has turned the clock back roughly 10 years. Well, compared to the present average salary, which is considerably higher, washing machines, refrigerators, radios, etc., have all become cheaper. Very few people realize this. For instance, in comparison with the average wage, a Fiat car is 30 percent cheaper today, the price of sewing and washing machines has dropped 40 percent, and that of refrigerators has fallen 50 percent.

[Question] And what conclusion does this lead to?

[Answer] If one were to agree with the view presented by the Consultative Economic Council (KRG), namely, that price increases of staple commodities should be avoided whenever possible, it would be because this view is based on the just conviction that the most economically vulnerable groups should be protected during the crisis. But you cannot protect these people without sacrificing the interests of others.

Perhaps in a few years' time we will have to reverse our approach. Years ago, Professor Jozef Pajestka published a famous article entitled "Lard or Suits?" The point he made was that food was too cheap compared to manufactured goods. Of course, it's much easier to cut production costs, thereby cutting the prices of manufactured goods, than it is to reduce food prices. But the crisis prevents us from doing this. We have to take into account the current supply situation. With some rationing in force, and also some free-market prices, the food situation is perhaps not ideal at the moment, but it's bearable, with the exception of meat. But there is a mess as far as manufactured goods are concerned, including higher-order goods. These are the object of profiteering. The prices they fetch on the black market are two or, in the case of automatic washing machines, even three times as high as the official prices in state shops. This means that a considerable number of those buying these goods are paying more anyway, only the difference is paid in the form of bribes or is taken by middlemen. So, for some people the price rise would change nothing, as they are paying higher prices anyway; it would just deprive others of their illegal profits. This would be the most effective way of combatting profiteering--balancing supply and demand.

[Question] But will hiking the price of manufactured goods really improve the market and curb profiteering? We've already heard so many promises which have proved groundless.

[Answer] I know what you're getting at--the fresh and crispy rolls [which Minister Krasinski promised would be available when bread prices were raised--ed. note). We certainly won't manage to wipe out profiteering completely, nor other scourges, like the production of false statistics. However, I've been working for quite a long time now, I've been connected with the civil service for 58 years, and experience has taught me that you must never set yourself the target of being 100 percent effective. You have to content yourself with achieving a major improvement. But everyone here in Poland is impatient, everyone would like his crispy rolls delivered instantly. Improvements take time, but it takes less time to improve the supply of certain manufactured goods than it does to increase food supplies. But this isn't the only problem.

There is also the problem of how to distribute the burden of the price hikes among the various groups of society. Although in absolute terms those on higher incomes spend more on food than the lower-paid, the latter spent a larger proportion of their incomes on food. In 1982, families with monthly incomes under 3,000 zlotys per person spent 62 percent of their incomes on food and only 1.4 percent on consumer durables. Families of wage-earners with per capita incomes over 10,000 zlotys spent 40.6 percent on food and 13.4 percent on durables. So by raising the price of consumer durables to a greater extent than the price of food, we protect the poorer and place a greater burden on the wealthier sectors of society.

[Question] One popular view is that instead of raising prices, we should raise the money for increased food subsidies by taxing enterprises. This would force them to increase efficiency.

[Answer] I think this would be dangerous. Cutting corporate profits more than a certain amount of bound to drain corporate development funds, thus slowing down modernization, or else produce cuts in pay, and any drop in wages below a certain level destroys the incentive to work. In both cases supplies would suffer, and increasing supplies is our prime concern in balancing supply and demand.

This is no easy task. We must not delude ourselves that price increases can be avoided. Prices have to go up if this balance is to be achieved. It is characteristic that the best market situation of all the socialist countries exists in Hungary, where the pricing policy is the most flexible. The point is to attain this flexibility, while avoiding excessive price rises.

[Question] So how should prices change?

[Answer] It certainly shouldn't be the case that one day a whole range of prices suddenly goes up simply because they had previously been stable for a long time. The practice of doing things by leaps and bounds has been characteristic of our economy for many years now. Everything always starts from

scratch from 1 January. I very much regret that the prices of certain food-stuffs weren't raised in July along with procurement prices. Every de'ay means that when the price rise does come, it has to be much steeper. When taking any measures related to the immediate situation, you have to consider their long-term and psychological effects. Psychological factors are extremely important. We have to avoid situations where many prices go up slightly while at the same time some others go up substantially. This provokes an unfavorable reaction as the public gets the false impression that all prices have risen steeply. This remark concerns the present. What will happen in the long run? Food prices will certainly go up, as will incomes. The problem is that agricultural production has to keep pace with this, so that we can raise wages and living standards faster without running the risk of encountering shortages. Leaving aside crop production, which we're beginning to get on top of (we'll cope with the grain problem, too), three articles are still a source of problems, namely, meat, fats and dairy products. Protein and fats are the two basic components of the human diet. In examining pricing policy, we have to calculate the number of convertible units of fodder necessary to produce the same amount of protein in the form of milk, pork and beef.

Assuming that milk protein requires 100 units, then 200 units are necessary to produce the protein contained in pork, while we need 300 for beef protein. So, as far as possible, milk and dairy products should be given preferential treatment. Naturally, I'm not suggesting that we should all become vegetarians; I don't want to be accused of claiming that we eat too much meat at present. I'm referring to a basic principle of pricing policy, i.e., that the consumer should only have to make a choice when he has something to choose between. The problem of fats involves the choice between butter and margarine. On world markets, the price of butter is three times higher than the price of vegetable oil. Nevertheless, I'm not suggesting that we cut back butter production, just as I'm not opposed to pork. What I have in mind is the relationship between prices. I would claim I deserve some credit here, as I've been defending large milk subsidies since the 1960's. At the same time I'm also in favor of producing high-quality margarine. I believe this sort of long-term trend in pricing policy will encourage people to make the correct choice. Since we are now about to change prices, we should bear in mind not only the immediate situation, but also a whole chain of long-term effects. Thus, if I were to select one of the versions of the price rises proposed by the Price Board, I would choose version 1B, with the increases slightly lower, as this version best corresponds to the arguments I've outlined.

[Question] Professor, after we published the last interview with you in ZYCIE WARSZAWY, you said there was something else you wanted to explain to our readers.

[Answer] Yes, I'd like to use this opportunity to rectify a mistake I made in that interview, which appeared in ZYCIE WARSZAWY on 12 November. Repeating someone else's estimates, I said that the material savings achieved by enterprises had only been half as great as those envisaged in the savings program.

I'll leave aside purely technical issues for the moment, like the method of making such estimates and the fact that they can never be totally correct. The point I'd really like to make is that the situation isn't actually as bad as I said. On the contrary, a corrected estimate indicates that material savings have been considerably larger than initially expected, at least as great as the targets set in the savings program. These savings have actually taken place ahead of schedule. As supplies are short, those enterprises which understand their own interests correctly have been trying to economize. In other words, many enterprises have displayed a capacity to adapt to the changing circumstances. They deserve praise for this, and should not be criticized, as might be inferred from my interview. A separate problem altogether is whether these savings haven't perhaps been achieved at the expense of quality standards.

CSO: 2600/521

BAKA ANSWERS ECONOMISTS' QUESTIONS ON 'FAZ,' INFLATION

Warsaw RZECZPOSPOLITA in Polish 1 Dec 83 supplement REFORMA GOSPODARCZA pp 1, 4

[Reply in writing to questions put forward to Minister for Economic Reform Wladyslaw Baka at the All-Poland Conference of Economists, held in Wisla on 19-20 October 1983]

[Excerpts] [Question] How great means were accumulated so far in the National Labor Redeployment Fund [PFAZ]? Was any part of them spent, and if so for what purpose? Where are these means kept?

[Answer] Under the reformed system of the functioning of the national economy, the mechanism of PRAZ contributions plays two very important socioeconomic roles. First, it is a regulator of pay growth in the socialized sector of the economy, and secondly it provides for the accumulation of financial means that may be needed in case the state has to finance changes in the structure of employment. The function of the pay growth regulator consists in that the enterprises in which increase in wages topped a pre-determined threshold pay contributions to the PFAZ. These contributions are deducted from enterprise distributed profits. The arrangement is designed to counteract excessive boosting of enterprise wage funds. Its design influences enterprise decision making on increase in wages--both those counted as operating costs and the profit-financed bonuses and awards. Progression in PFAZ contributions provides encouragement for enterprises to use profit for expansion purposes.

In 1982, the PFAZ revenues from contributions paid on account of increase in wages totaled 52 billion zlotys. The figure for the first three quarters of 1983 is 38.8 billion zlotys.

The PFAZ resources may be used to finance:

--vocational training of people who are temporarily unemployed or who are changing workplaces, juvenile employees, and persons who have to be retrained to suit new requirements of the workplace,

--additional jobs in towns and localities where there are no opportunities of employing people who are temporarily unemployed or changing their workplaces, including those with impaired ability to work and higher-school graduates taking their first jobs.

--public works organized for temporarily unemployed persons if there is no other way of providing jobs for them,

--benefits for persons who are temporarily unemployed because it is not possible to get a job or to undertake vocational training, and for persons enrolled in vocational training courses,

--part of enterprise-borne costs of running the training posts for juvenile workers trained under contract of labor provisions and for pupils trained under school-enterprise agreements,

--partial costs of projects carried out by voluntary labor brigades (ONP),

--expansion of an information system suiting the requirements of labor exchange, consulting, and manpower transfer,

The PFAZ means are at the disposal of the minister of labor, wages and social affairs and--at lower level, in descending order--voivodship-level bodies of state administration and local-level bodies of state administration. The surplus of PFAZ revenues over its expenses, reported in an annual balance sheet, constitutes a state budget placement.

In 1982 and 1983 no need appeared for a major spending of PFAZ means. Last year's expenses, for example, amounted to as little as 1.3 billion zlotys, or 2.4 percent of PFAZ revenues. Of this sum, 844 billion zlotys were absorbed by indirect [producer] subsidies paid enterprises which had to temporarily suspend production or change the structure of employment and production following the abandonment of previous line of production. The remaining expenses were used to finance:

--public works providing jobs for the average of 1,500 unemployed persons a year (annual cost of these works approached 118 million zlotys),

--subsidies to enterprises that run training posts for juvenile workers and pupils (82 million zlotys),

--benefits for juvenile workers employed for the purpose of vocational training (62 million zlotys, received by 24,300 persons),

--benefits for employees granted unpaid leaves and for unemployed persons (56 million zlotys, received by 6,700 persons),

--additional jobs in towns and localities where it was not possible to employ job seekers, especially women and higher school graduates (52 million zlotys, 41 new jobs),

--vocational, retraining for people changing their workplaces (25 million zlotys, 1,600 persons retrained),

--compensation paid to those laid off at former workplaces, following the liquidation of an enterprise or a work stand, and employed in new workplaces (10 million zlotys).

As shown by these data, the mechanism of PFAZ contributions has so far played the function of pay growth regulator, with expenses accounting for only a small proportion of the revenues.

But it should be expected that heightened economic pressure on enterprises for closer linkage between wage and development funds on the one hand and the level and efficiency of production on the other--which is the goal of planned modifications of some arrangements for 1984 and later--will contribute to gradual improvement of the employment structures at enterprises. This should intensify the process of enterprises' releasing the surpluses of manpower (really existing in many enterprises), which while permitting an employment growth in sectors where labor scarcity still poses a barrier to growth will render it imperative to accelerate the process of vocational retraining. The demand for FAZ resources, with which this process is financed, will step up accordingly.

[Question] What is the present size of the inflationary overhang [nawis inflacyjny] and what trends can be discerned in it? How does the inflationary overhang influence the introduction of economic reform and what steps are taken to counteract its increase?

[Answer] The population's money resources [zasoby pieniezne] totaled 1,707.6 billion zlotys on 31 October 1983, splitting into 1,014.8 billion zlotys in saving deposits and 692.8 billion zlotys in cash. The economic community agrees that a proportion of the general amount of the population's money resources constitutes "compulsory" savings (referred to as inflationary "overhang," "hot" money, etc.) which would be spent on the purchase of goods and services if they were only in sufficient supply.

But there is no agreement as to the amount of compulsory savings and methods of their estimation. According to one such method--treating the compulsory savings as the difference between global amount of the population's money resources on the one hand and the target-oriented savings plus demand for so-called transaction money on the other--the size of the inflationary overhang approached 500 billion zlotys at the end of 1982. Under another method the inflationary overhang is presented as a cumulative amount of compulsory savings in successive years, constituting in a given year the difference between the actual increase in the money resources and the increase stemming from a natural propensity to save (secular trends show that the population sets aside in the form of voluntary savings some 6 percent of net money earning a year).

With the help of this method, the level of inflationary overhang at the end of 1982 is estimated at 360 billion zlotys. Both methods have their strengths and weaknesses.

The shortcoming of the first one is that it arbitrarily adopts the level of parameters which determine the population's demand for money necessary to service current transactions.

The other's fault is that it employs a coefficient of natural propensity to save calculated on the basis of empirical data for the period of balanced market and a 2-3 percent annual increase in prices.

This shows that an accurate assessment of the size of inflationary overhang is virtually impossible, since the calculations must take into account a host of elements which are virtually unmeasurable and which vary in step with changing circumstances.

It should also be emphasized that, irrespective of the method of estimation, the size of the inflationary overhang is not in the nature of a constant, absolute figure. In step with the reduction of the rate of inflation and balancing of the market, a substantial proportion of the present-time compulsory savings will turn into voluntary savings.

It should be also kept in mind that the knowledge of the size of inflationary overhang alone will not suffice to assess the degree of home-market imbalance, which is necessary to pursue a correct economic policy and in particular to determine the desired level of goods and services supply.

It is not the allegedly excessive money resources of the population that are the cause of monetary/consumer-market disequilibrium. The ratio of per capita money resources (46,500 zlotys) to average pay (14,000 zlotys) is not high, standing at 3.32 to 1.

In other socialist countries, the per capita ratio of saving deposits alone to average pay is higher than Poland's ratio of all money resources (i.e., savings plus cash) to average pay. For example, this ratio stood at 3.34 in Hungary, 3.62 in Czechoslovakia, and 5.83 in the GDR.

As these data show, it is not the reduction of the existing money resources of the population, but rather the provision of adequate supply of goods and services, that best helps to balance the market. Only with the increased supply will a substantial part of today's overhang transform on its own into voluntary savings.

This supply should first of all equal the current demand from the population (shaped by the amount of money earnings), permit the restoration of inventories in the distributive network to a level guaranteeing continuity of sales, and enable gradual "absorption" of compulsory savings accumulated in previous years (if need be).

So what was the trend over the past few years in the shortage of goods necessary to cover current demand and ensure sales continuity? Assuming that the so-called propensity to save stands at a constant level of 6 percent (which naturally is a simplification) and that the desired level of goods inventories (necessary to ensure sales continuity) equals monthly sales in the case of foodstuffs and four-month sales in the case of non-food articles, the shortage of supply can be estimated at:

--50 billion zlotys in 1980 (or 3.2 percent of net money earnings), coming as a result of decreasing level of inventories,

--350 billion zlotys in 1981 (17.7 percent), of which around half constituted the excess of the purchasing fund over the supply of goods and services, while the remaining part was caused by the shortage of inventories,

--430 billion zlotys in 1982 (13.2 percent), of which 200 billion zlotys reflected the excess of current demand over supply (compulsory savings) and 230 zlotys [as printed] represented the shortage of inventories,

--300 billion zlotys in 1983 (7.4 percent), splitting into 70 billion zlotys in compulsory savings and 230 billion zlotys in inventories shortage.

As for the impact of the inflationary overhang (or, more broadly, unbalanced market) on progress of economic reform, it is no doubt negative. In the absence of market equilibrium, the producer has a privileged position vis-a-vis the buyer, as a result of which:

--there are no market stimuli enforcing quality improvement, cost reduction and, consequently, better utilization of plant and equipment, raw and intermediate materials, and manpower resources,

--there is no major stimulus to exports, in the form of limited sales opportunities in the home market,

--an overwhelming proportion of prices are not equilibrium prices, or the correct parametric prices external to the enterprise,

--financial performance does not play the function of the principal verifier of economic efficiency at individual enterprises.

In this situation, the self-regulating role of market mechanism may not be used in full, which in turn necessitates the application of a broad range of "auxiliary" arrangements, often of administrative character.

Among such arrangements, which out of necessity restrict the self-regulating role of the market mechanism, mention should be made of:

--a great deal of administrative interference into pricing (e.g., bans of price increases, price-rise ceilings, price freeze, broad application of official and regulated prices),

--broad application of diversified rates of sales tax,

--application of various forms of rationing.

It can thus be stated that the restoration of the monetary/consumer market equilibrium depends on whether the self-regulating function of the market mechanism will be utilized in accordance with the target model of reform. To this end, it is imperative that the current inflationary gap (or the excess of current demand over supply) be eliminated in the first place. The gap was reduced this year to 1.7 percent of net money earnings--down from 8.6 percent in 1981 and 6.1 percent in 1982.

This shows that the current inflationary gap can be reduced entirely starting from 1984 (although it will not be possible to restore equilibrium in all good markets). In the second stage, the level of goods inventories in the distributive network will have to be raised so as to ensure sales continuity, while the third stage will see the "absorption" by the market of a portion of inflationary overhang generated in previous years.

This requires that measures be taken simultaneously in three directions:

--stimulation of consumer-production growth,

--closer linkage between production-sector wages and production dynamics, and the adjustment of wages in the non-production sphere and social benefits to real capabilities of the economy, determined by the growth-rate of national income,

--active price policy, stimulating the restoration of equilibrium in those markets where it is possible.

Both the proposed Central Annual Plan for 1984 and the [government-] adopted lines of strengthening the principles and improving the mechanisms of economic reform provide for the continuation and consolidation of these measures.

CSO: 2600/522

ACCOUNT OF BAKA MEETING WITH FIRM REPS CARRIED IN GOVERNMENT DAILY

Warsaw RZECZPOSPOLITA in Polish 15 Dec 83 supplement REFORMA GOSPODARCZA p 3

[Excerpts] Minister for Economic Reform Wladyslaw Baka, at a 12 December meeting with representatives of enterprises with the status of reform consultants, discussed changes in enterprise operating conditions in 1984 and work on relevant legal acts.

Acting on authorization from the Council of Ministers, he made an author's amendment to the bill on changes in some laws on economic reform, earlier submitted to the Sejm. In line with the amendment, the lower rate of income tax will be paid in 1984-1986 also by enterprises with up to 45 percent share of 1983 income tax [in profit]--instead of up to 40 percent as originally proposed.

No decision has yet been made on changes in production supply prices which will not be announced on 1 January 1984. But these prices (including energy prices) will no doubt be altered in the course of the year--in compliance with the adopted pricing principles.

No changes in the exchange rate are planned at present.

It is proposed that in case the difference between the dynamics of net sold production and gross sold production exceeds 3-5 percentage points, the enterprises should submit to fiscal chambers for verification their quarterly reports on computation of net sold production. Funds earmarked for wages on this account would be released after the verification.

The system of export-revenue allowances accounts (RODs) will be maintained. The draft balance of payments, submitted to the Sejm, includes a provision to the effect that the account holders will be served by Bank Handlowy in the first place.

Legal groundwork and favorable conditions will be provided for a wide-scale introduction of wage experiments. Submitted to the Sejm has been the bill on remunerating employees of socialized enterprises in conditions of implementation of economic reform [see the first item in this issue]. No amendment is planned to the Council of Ministers executive order 135.

Next, Minister Baka together with heads of functional ministries and offices was answering questions.

Measures of Production

[Question] Are any changes planned in the principles of computing net sold production in 1984?

[Answer] The net sold production yardstick, applied in 1983, was criticized for permitting manipulations in translating its figures for various periods into comparable data. But an analysis of the yardstick's susceptibility to manipulation found it declining with the passage of time in which the yardstick is applied. So it is proposed that the existing methods of computing the net sold production be maintained in 1984.

[Question] Will it be possible to change the yardstick of production used in computing PFAZ taxation? Who will have the final say on this?

[Answer] The following general principle is proposed: the yardstick applied in the enterprise in 1983 should stay in 1984.

However, there are areas where the gross production yardstick was used--at the request of the enterprises concerned which considered such solution more convenient. Now they are having second thoughts. In such cases, the general principle may be disobeyed, and return from the gross to the net measure may be permitted. Two options are discussed. The decision on yardstick change would either be taken by the parent body at the request of the enterprise, or would be notified to the parent bodies by enterprises at specified dates. These, however, are just proposals, not the binding decisions.

Income Tax

[Question] What were the motives behind the imposition of the 60 percent rate of corporate income tax?

[Answer] Before determining the rate level, an analysis was made of both the state-budget requirements and the financial needs of enterprises taken as a whole. This and other calculations showed that a 60-percent rate of income tax should guarantee budgetary revenues at a level meeting the nation's social and economic requirements. This is a minimum rate, and the budget is still in the red. But a higher rate could push enterprises into financial troubles, the more so as their financial situation is also affected by other factors such as indebtedness (especially on account of operating credits). The analysis and calculations show that 60 percent is the optimal rate.

[Question] Are there any plans concerning the amendment of the Council of Ministers ordinance on unwarranted costs? If so what will be the direction of changes?

[Answer] An amended version of the ordinance on costs and losses considered unwarranted for the purpose of income tax computation has been submitted to the Council of Ministers. Business-trip expenses, or an element criticized by enterprises from the beginning, have been excluded from that category. But the costs of eliminating the faults revealed by buyers are still an open question.

[Question] What changes will be made in 1984 in the system of income-tax concessions?

[Answer] The system of income tax concessions--and especially their excessive number--has been a subject of fierce criticism. Starting from 1984, only 5-7 titles to concessions will be maintained, involving investment projects expanding export production, environment-protection and occupational-safety projects, fuels and energy economies, production of high quality articles, etc.

All concessions and related problems will be regulated in a single Council of Ministers ordinance which will also include provisions concerning concessions granted on account of export production (to be accorded preferential treatment).

The ordinance will set the upper limit for the portion of income tax that can be used for indirect financing of enterprise development, i.e., the upper limit for tax concessions. It is proposed at 30 percent of the tax--for all kinds of concessions with the exception of export-production concessions, to be granted irrespective of the said limit.

Investment Financing and Crediting

[Question] How will funding be provided for projects of special national importance carried out by enterprises whose own resources are insufficient?

[Answer] In such cases, the enterprise's own resources and bank credit will be complemented by the state budget--both indirectly, through tax concessions and permits to keep the whole depreciation, and directly from the state coffers. Application for and utilization of direct budgetary subsidies for enterprise projects will be regulated in a Council of Ministers ordinance, to be issued on the basis of the amended law on finance management in state enterprises. Enterprises entitled to exempts or concessions on transfer of depreciation charges to the budget will be named in the Central Annual Plan.

[Question] On what terms will enterprise projects be credited in 1984?

[Answer] The credit capacity, as defined in the credit plan for 1984, is very limited and hence the stringent criteria applied to these projects. Relevant proposals, approved by the Council of Ministers and submitted to the Sejm, provide for this kind of projects to be financed in 70 percent with enterprises' own resources and in 30 percent with credit. The maturity of credit, from the moment it is drawn till its repayment, will be 5 years. The amended provisions of the finance management law also provide for the possibility of applying to the budget for funding.

These terms will be applied to both new projects of enterprises and those planned for resumption.

Projects of enterprises involved in food, consumer and export production will enjoy preferential treatment.

[Question] From what sources will central projects be financed?

[Answer] The central projects may be financed entirely or partially with budgetary subsidies. The amount of subsidies will be defined in the decision on project launching. Credits drawn for such projects will be repaid over a period of 10 years after the planned completion date. This period may be extended to 15 years for projects in agriculture, mining and power industry. The credit will be repaid from the development fund of an enterprise established as a result of the project in question or of the enterprise which commissioned the project.

[Question] What period of credit repayment is planned in respect to former central projects now continued by enterprise?

[Answer] Such projects should be repaid with depreciation funds over 10 years. If it is not possible to repay a project entirely in that period, bank credits will be extended under state-budget guarantees.

Prices

[Question] Will there be any changes in the official prices of low-profit articles in case their production costs increase?

[Answer] The Price Office will consider applications for increases in official prices in cases where rise in production costs is outside the control of the enterprise.

[Question] Will [the producers] be obligated in 1984 to compile contractual-price calculations on the basis of warranted costs?

[Answer] There will be such obligation in 1984 if the buyer requests such calculation.

This, however, does not mean that the level of warranted costs will directly determine the price, since no profit margin is imposed on the contractual prices.

PFAZ Contributions

[Question] How will the PFAZ contributions be collected in 1984?

[Answer] In the designing stage is a draft ordinance of the Council of Ministers which defines the principles of collecting PFAZ taxation and setting the threshold of tax-free increase in wage funds. The document will regulate the rates of PFAZ taxation on both those wages which are counted towards costs and those which are paid from distributed profits. It can be stated at present that the scale published at the beginning of September (with the highest rate of 600 percent) will be changed. But the currently applied scale will be made more stringent. As previously, 7 percent of distributed-profit payments will be exempt from PFAZ. Also exempted will be transfers from the workforce-participation fund to the social and housing funds.

What is still uncertain is the level of the general adjusting coefficient [linking the level of PFAZ-free increase in wages to production growth]. It will be applied almost universally, and its higher level will be allowed only in warranted, strictly defined cases. The related procedures will be changed. A list of sectors, sub-sectors and kinds of operation in respect to which the increased coefficient can be applied will be included into the Central Annual Plan. No enterprise from outside the list will be allowed to apply for higher coefficient, neither at the beginning nor in the course of the year.

[Question] How about PFAZ taxation on enterprises which work according to special principles reflecting the specific nature of their operations.

[Answer] The draft ordinance provides for the possibility of applying different coefficients which would take into account special features of various kinds of economic activities. The list of special areas and enterprises operating in these areas is very extensive, and it is still discussed whether the application of special principles is justified in all cases. But no doubt such special principles of PFAZ taxation will be applied in respect to municipal services and housing.

[Question] Will the 1984 base for PFAZ taxation include wages for Saturday work and the amounts which were free from PFAZ taxation in 1983?

[Answer] The general principle of constructing the base for 1984 (against which wage increases liable to PFAZ taxation in that year will be counted) is as follows: it will include all wage components which were not taxed with PFAZ in 1983, whether paid for Saturday work or for other reasons. But it is still an open question whether the 1984 increase in wages on account of extended work on work-free Saturdays will be exempt from PFAZ contributions or not.

[Question] Are there any plans concerning systemic mechanisms which would level wage disproportions?

[Answer] In accordance with the Guidelines for Strengthening the Principles and Improving the Mechanisms of Economic Reform as of 1984 [ER 43-83], some additional lump-sum quotas of PFAZ-free wage funds will be granted. This, however, will be by no means universal. One reason for this is that the wage payments on this account, as not connected with production growth, would have the effect of fueling inflation.

Decisions on the allocation of these quotas will be taken by the minister of labor, wages and social affairs in cooperation with parent bodies and within the overall amount inscribed into the Central Annual Plan.

The exemption of additional wage-fund quotas from PFAZ taxation will be granted in particular those enterprises which in 1981-1982 reported no decline in production and labor productivity and which worked at full capacity.

A growth in output at such enterprises is extremely difficult, which naturally limits the opportunities for achieving a tangible increase in wages.

But no mechanism is planned for automatic leveling of pay disproportions throughout the economy. In the present conditions this would require enormous funds, and the payments not linked to production growth would stimulate inflationary processes.

[Question] Will the PFAZ taxation be automatically increased following the inclusion of cost-of-living supplements into basic wages?

[Answer] Increase in wages stemming from this inclusion will not be subject to PFAZ taxation.

Government Orders

[Question] What sanctions are planned for those parties to contracts on Government orders who do not meet their obligations?

[Answer] Government orders will be executed on a contractual basis--between the supplier, or the executor of a government order, and distribution agency authorized under Council of Ministers executive order 151 to award government orders. So it is their contract which should regulate all possible circumstances connected with both a failure of the supplier to produce and supply the ordered commodities and the authorized agency's responsibility for the receipt of the ordered articles at the agreed date, and payment of the agreed sum.

A model contract on government order [prepared by the minister of material resources management] includes a provision guaranteeing the supplier that he will receive necessary fuels and raw materials. This is his greatest privilege.

The model contract also includes general provisions on foreign exchange appropriation. Foreign currencies are to be provided not by the agency which awards the government order but by the supplier's parent body. Tenders for government orders must stipulate the terms on which the bidding enterprise intends to execute the order, including the amount of foreign exchange committed to the undertaking and its source.

The Central Annual Plan will specify--next to the level of central imports which provide a major source of centrally financed raw-material supply--the amount of foreign exchange earmarked for government orders and operational programs. The division of this amount will be in the purview of an Inter-ministerial Team for Import Control. It will allocate foreign exchange appropriation to individual parent bodies, and their amounts will be inscribed into contracts on government orders.

It may happen in isolated, unexpected cases that the parties do not meet contractual terms. The compensation for incurred losses, or lost benefits, by the parent body, with partial burden shouldered by the state budget, could then be considered. But this is possible only in unique cases which do not lend themselves to general regulation.

In summing up the meeting, Minister Baka made more comments on the problem of leveling pay disproportions.

For this to be achieved, he said, three things are needed: a diagnosis of the current state of affairs, the tools with which to diminish or eliminate the existing disproportions, and--most important--the available funds.

The diagnosis has already been made, and the instruments of alleviating the disproportions exist (e.g., the amount free from FAZ contributions, the possibility of applying diversified levels of adjusting coefficient, etc.). This means that there exist the systemic conditions for a solution to these difficult problems. But they can be tapped only to an extent determined by the amount of available funds. The consumer market equilibrium is just as important. The zloty will be counted as a category of motivation as long as it has an equivalent in the form of goods and services. Otherwise, we may have high wages and no pay disproportions, but the economy will retreat. This must be taken into account. The pace of alleviating the disproportions will depend on the growth-rate in labor productivity, on the process of employment rationalization, progress in material economies and, generally, the pace at which the efficiency of the economy increase.

CSO: 2600/494

'WAGE EXPERIMENT' BILL PUBLISHED, REVIEWED IN MINISTRY STATEMENT

Text of Bill

Warsaw RZECZPOSPOLITA in Polish 15 Dec 83 supplement REFORMA GOSPODARCZA pp 1, 2

[Bill on Principles of Remunerating Employees of Socialized Enterprises]

[Text] With a view to linking more closely the principles of remunerating the employees of socialized enterprises with the results of their work in conditions of implementation of economic reform, the following is hereby announced:

Article 1

1. This bill, with the reservation of Sec. 2, may be applied to persons employed in:

(1) state enterprises falling into the purview of the law on finance management in state enterprises, dated 26 February 1982 [Dziennik Ustaw No 7, item 54, No 44 item 288, No 45 item 289],

(2) cooperative units acting on their own account,

(3) scientific establishments and other research and development organizations, with the exclusion of budget-financed units, later referred to as "enterprises."

2. The provisions of this bill are not applicable to:

(1) employees of an enterprise in which liquidation or default proceedings have been instituted,

(2) employees of factory-run educational, cultural, training, and nursing establishments,

(3) industrial guards and firemen,

(4) juveniles employed for the purpose of vocational training, in the first or second year of training,

(5) offices in charge of voluntary labor brigades [OHP] and OHP members.

3. The Council of Ministers may, in an ordinance, extend the provisions of this law to cover employees of enterprises not mentioned under Sec. 1, and employees mentioned under Sec. 2.

Article 2

1. An enterprise may introduce its own system--permitted under this law--of wages and other work-related benefits, herein referred to as "wages," on the basis of an agreement between the management and the relevant self-management council on the one hand and the relevant body of enterprise trade union organization on the other.

2. The agreement mentioned under Sec. 1, hereinafter referred to as "agreement," may be concluded only after positive opinion of the workforce is obtained.

Article 3

The entirety of wage principles for enterprise employees shall be defined in the agreement, and especially the principles stemming from the provisions of Articles 4-17 of this law.

Article 4

1. The agreement may be terminated, with the termination coming into force at the end of a calendar year:

- (1) by consent of the parties to the agreement, or
- (2) on a three-month notice, issued by the enterprise manager or the relevant body of the enterprise's trade union organization.

2. Pending the conclusion of a new agreement, the wage principles laid down in the previous agreement shall hold.

Article 5

1. The enterprise, with the available wage funds created in accordance with separate regulations, may pursue an independent wage policy, and in particular determine the components, forms and principles of wages, and their level--in compliance with the provisions of this bill.

2. The enterprise may apply only such forms of wages which tie their level to the amount and quality of work done, and the bonuses should be conditioned by the execution of quantitatively and qualitatively measurable tasks assigned to an employee.

Article 6

The employee is entitled to receive for his work: base wage as a principal remuneration determined by his pay grade, and wage benefits provided for in this law.

Article 7

The managerial staff is entitled to managerial supplements [dodatek funkcyjny].

Article 8

The employee is entitled to the following wage supplements:

- (1) for overtime work,
- (2) for night work,
- (3) for work in hazardous, arduous or dangerous conditions.

Article 9

The overtime supplement may not be lower than:

- (1) Fifty percent of lowest-wage hourly rate, for the first two overtime hours,
- (2) One hundred percent of lowest-wage hourly rate for the successive overtime hours, and for overtime hours falling on nights, Sundays, holidays, and work-free Saturdays introduced under Article 150 of the labor code.

Article 10

Night work supplements may not be lower than 30 percent of the lowest-wage hourly rate.

Article 11

In cases and on conditions defined in existing regulations, the employee shall be entitled to wage supplements for work in hazardous, arduous or dangerous conditions--not lower than 5 percent of the lowest-wage hourly rate.

Article 12

1. In cases and on conditions defined in existing regulations, and with the reservation of Sections 2-4, the employee is entitled to a seniority supplement [dodatek za staz pracy], linked to the lowest wage.

2. The enterprise may set other conditions--than those in the existing regulations--for accepting the employee's previous employment [in other enterprises] as entitlement to seniority supplement. However, the periods of employment ended with the abandonment of the job by the employee, or with the termination of the labor contract by the enterprise without notice through the employee's fault, may not be included into the duration of service taken as the basis for the computation of seniority supplement.

3. The enterprise may state in the agreement that the seniority supplement granted exclusively for service in that enterprise.

4. The enterprise may decide that all employees will be covered by uniform principles of granting seniority supplements.

Article 13

1. In cases and on conditions defined in existing regulations, and with the reservation of Section 2, the employee is entitled to a jubilee award and to severance pay on retirement:

- (1) these two benefits are computed in relation to the lowest wage,
- (2) the amount of jubilee award, granted under existing regulations after 10 years of service, is set at 100 percent of the lowest wage [of the day the right to jubilee award is won] and will increase by 50 percent of the lowest wage with each successive five-year period of service,
- (3) the amount of severance pay on old-age and disability retirement, payable under existing regulations after 10 years of service, is set at 100 percent of the lowest wage and will increase by 50 percent of the lowest wage with each five-year period of service; if the employee is pensioned as a result of workplace accident or occupational disease, he is entitled to 100 percent severance pay even if his service is shorter than 10 years.(...)

2. The enterprise may set other conditions--than those provided for in existing regulations--for accepting the employee's previous employment as entitlement to jubilee award. However, the periods of employment ended with the abandonment of the job by the employee, or with the termination of labor contract by the enterprise without notice through the employee's fault, may not be included into the duration of service taken as the basis for the computation of jubilee awards.

Article 14

The basis for computing the amount of pay for down-time periods mentioned in Article 81, paragraphs 2-4 of the labor code may not be lower than the lowest wage.

Article 15

1. The enterprise may not grant other work-related benefits than those provided for in existing wage regulations, in the collective labor contracts, and in regulations on sectoral benefits, and it may not extend the scope of these benefits. This is particularly true of the allowances in kind and their money equivalents. The allowances may be granted only to the amount and according to the principles defined in relevant regulations and collective labor contracts. The enterprise may withdraw from granting these benefits, using the saved resources for additional rewarding of higher productivity or better quality of work.

2. The provision of Section 1 concerning the withdrawal from allowances in kind may not apply to free or partly paid on-the-job-meals and food, if the nature of the job requires that such meals and food be provided.

Article 16

The agreements defining the principles of wages and other work-related benefits replace--to an extent defined in this bill--the binding provisions concerning wages, including the provisions of Article 81, Sections 2-4 and Article 134 of the labor code, collective labor contracts, and regulations on sectoral benefits.

Article 17

The wage principles defined in the agreement replaces--upon the agreement's entry into force--the corresponding terms of individual labor contracts.

Article 18

1. The agreement takes effect after its registration by the minister of labor, wages and social affairs who checks its compliance with the provisions of the bill.
2. The supervision over the implementation of the agreement shall be carried out by parent bodies of socialized enterprises, and in respect to other work establishments by authorized organizational units of the higher level.
3. If the body mentioned in Section 2 finds that the enterprise transgresses the provisions of the agreement or of this law, it shall call on the manager to remove the transgressions within a specified period of time, and if this proves futile it may put an obligation on the manager to terminate the agreement.

Article 19

1. The Council of Ministers shall define, in an ordinance:
 - (1) conditions and procedures for the introduction of experimental wage principles by enterprises,
 - (2) procedures for consulting the workforce on the introduction of experimental wage principles,
 - (3) detailed procedures for the registration and control of the agreement and supervision over its implementation.
2. The Council of Ministers may, in an ordinance, adjust the provisions of this bill to suit the specific features of mining, energy and gas-engineering enterprises.

Article 20

Wherever this bill refers to the lowest wage, this should be understood as the lowest wage of employees of socialized enterprises, set by the Council of Ministers on the basis of the labor code.

Article 21

This bill shall take effect on 1 January 1984.

Labor Ministry Clarification

Warsaw RZECZPOSPOLITA in Polish 19 Dec 83 pp 2, 3

[Excerpts] The publication of the wage bill, submitted to the Sejm by the Office of the Minister for Economic Reform came in response to requests from enterprises preparing for the introduction of experimental wage principles.

The ministry has since been asked many questions concerning the extent of the designed reform, its date, the procedures involved, the powers to be delegated to the Council of Ministers, etc.

Against this background, the following is explained:

- (1) At the present stage of legal proceedings, the published text is only in a draft form, and may be changed, after discussions at Sejm committees. The committees are expected to consider the bill this week;
- (2) The text of the bill in its present shape takes into account the more than three months' old public consultation over the pay reform proposals published in the press on 5 August 1983 [EW 32-83]

The ministry received many comments from social organizations, trade unions, enterprises, and individual citizens. The majority opted for the creation of legal groundwork--for motivational wage systems involving changes in the internal structure of wages--to be absolutely voluntary and based on an agreement between the management and organizations representing the workforce. The changes are aimed at strengthening the role of those wage components which are directly linked to the results of work, such as basic wage rates, piece rate prices, etc.

- (3) It's worth reiterating that under the provisions of the bill [Article 5, Section 1, Article 16, Article 18], the option to start improving the wage principles is absolutely voluntary for the workforce and the management.

The voluntary nature of the proposals is confirmed in the now prepared Council of Ministers ordinance draft on the implementation of the bill.

The draft stipulates that the management may ask the parent body and Ministry of Labor, Wages and Social Affairs to permit introduction of an experimental wage system only after meeting a number of conditions, the most important of which being the positive opinion of the majority of the workforce, and the conclusion of an agreement between the management and the workforce representative bodies.

Unless these conditions are met, enterprises will operate in 1984 according to the existing wage principles.

- (4) Next to the voluntary nature of new wage system, mention is due to the great deal of flexibility permitted in its introduction. Only the lower limits are set for most of the wage components [such as supplements for overtime work, work in hazardous, arduous or dangerous conditions, and night work], which means that the management and the workforce may choose to increase their levels.

(5) Many questions concern the upper limit of basic wage rates in experimenting enterprises. This subject, incidentally, caused the most heated discussion during the public consultation.

The draft ordinance of the Council of Ministers reflects the solution which has been proposed most often and which complies with the spirit of economic reform. No upper limits are set for basic wages.

This means that the level of upper wage rates in experimenting enterprises will be determined by the following factors:

--the amount of available wage funds,

--the scope of changes in the internal structure of wages,

--the updating of work norms, which will depend in large measure on the introduction of sufficiently high basic wage rates and piecework prices.

In practice, employee wages will grow in proportion to increase in labor productivity in the enterprise. Better remuneration of work will be a factor pushing up the enterprise's economic results, and consequently the employees' wages.

The draft ordinance sets only the lowest acceptable differentials in basic wage rates [for both factory and office workposts] and managerial supplements.

The draft also contains many provisions of formal nature, defining the conditions and procedures for introducing experimental wage principles in enterprises.

The complexity of the problems involved requires a period of adjustment of several months. For this reason, the systemic changes will be introduced gradually, in step with the working out of full-fledged motivational solutions, accepted by the workforce.

CSO: 2600/493

GORYWODA CALLS PRESS CONFERENCE ON 1984 ECONOMIC PLAN

LD192338 Warsaw PAP in English 2005 GMT 19 Dec 83

[Text] Warsaw, 19 Dec--"The economic plan for 1984 is a plan to further make up for the distance lost in the years 1981-82, which is reflected in both national income and production growth and the creation of conditions to improve the living standard on the basis of better market supplies," the chairman of the Government Planning Commission, Vice-Premier Manfred Gorywoda told a press conference here today.

Discussing detailed methods of fulfilling these intentions, Vice-Premier Mandred Gorywoda stated that they will become attainable through better effectiveness of management, rationalization in every branch of the economic activity and expanded cooperation with other countries, and especially socialist ones.

Consultations carried out on the draft plan proved that major postulates put forward by the nation include: to prevent real wages from going down in 1984, to maintain the price rise rate within planned limits (that is 15 percent) and to improve the supply of marketables, and primarily industrial goods, the chairman of the Government Planning Commission said.

All these postulates were taken into account by the government--according to the existing means and possibilities of maneuver--for the approval of the central annual plan (central economic plan) for the year 1984, he added.

The most significant amendment to the approved plan--as compared with its assumptions--is a change in the dynamics of the national income and industrial production, the vice-premier said.

As the 1983 results are going to be better than the preconceived ones, it will be impossible to maintain such a high growth rate in 1984. Therefore, the plan for 1984 provides for an increase in the manufacturing output by 4.5 percent (instead of the 4.5-5.5 percent growth envisaged by the draft), he added.

These changes are also affected by worse economic conditions in 1984 than those planned. This refers to higher inflation than that planned, lower possibilities to obtain credits from capitalist countries and higher outlays on investment projects in 1983 than those planned, Manfred Gorywoda went on.

These elements provided the basis for correcting the size of growth of national income which was planned to increase by 3.5 percent in 1984 and now is planned to go up by 2.6 percent, the vice-premier stated.

"I would also like to state that manufacturing output--even accompanied by this lower growth rate--will be greater in 1984 than that planned, owing to much higher 1983-output than the envisaged one," the chairman of the Government Planning Commission underscored.

The 1984-plan [word indistinct] priority to be given to a greater share of consumption in the national income for division than the to-date one (increase by 2.4 percent) accompanied by smaller share of outlays for investment projects by 2.8 percent against last year's. On the other hand, it provides for maintaining the planned rate of wages' growth by 17 percent and speeding up the pace of pensions' growth through allocating an additional amount of about 20 billion zlotys to this end. This is possible owing to the increase of market production by 40 billion zlotys, the vice premier pointed out.

Vice-Premier Gorywoda went on to name following areas as the ones that might threaten the implementation of the 1984 plan: the uncertainty in trade with capitalist countries, hard-to-predict results of the negotiations with Poland's creditor banks and governments, a possibility of further money growth on the market and a degree of succeeding in keeping investments within the planned limits.

"We are pursuing further changes in handling the economic processes in order to improve the utilization of economic instruments," Gorywoda said and added that the Government Planning Commission will be gradually turning into a staff for economic strategy by leaving current control of economic processes to ministries and local administration.

While answering questions, he stressed that the expected Sejm resolution on amending the economic reform's lines will not affect its fundamental assumptions as it is meant to serve an improved adapting of economic instruments to the demands of Poland's economy.

CSO: 2020/55

ECONOMIST SURVEYS FACTORS PROMOTING, HINDERING REFORM

Warsaw SLOWO POWSZECHNE in Polish 2-4 Dec 83 pp 2, 3

[Interview with Tomasz Afeltowicz, president of the Polish Economics Society (PTE), by Murek Matusiak]

[Text] [Question] Would it be very tactless of me to ask about your attitude toward the reform?

[Answer] No, that wouldn't be tactless, every economist is probably being asked that question at the moment. That's because there's a widespread conviction that various economists, particularly academic economists, differ widely in their attitude toward the reform.

[Question] Are you suggesting they don't?

[Answer] No, not at all. On the contrary, I believe they really do.

[Question] Why do you think these economists have such different views?

[Answer] The reform has come through three different stages of development. The first involved working out the conceptual principles on which the whole system of changes would be based. This stage was extremely interesting from the intellectual point of view. Next came the legislative stage--translating these conceptual principles into the language of the law. Then came the stage of putting all this into practice, which continues to this day.

Frankly speaking, my profession, and we are involved with theory, not practice, found the stage of conceptual principles the most interesting phase of the reform. At that time there was a wide plurality of views and nearly each of us has his own vision of the reform, which, as is usually the case, we considered to be ideal. I don't know of any economist who at that time wasn't fascinated with the whole idea of the reform. There were pronounced differences of opinion at that time and a multitude of opposing views, which gave rise to the widespread conviction that economists were very divided as to how the reform should look and how it should be implemented.

[Question] I think that we can ignore this first stage now, as the Sejm has settled the matter by endorsing the "Directions of Economic Reform." We can also leave aside the legislative stage, which is the natural consequence of

earlier decisions. But I personally believe--we may differ on this score--that economists didn't become really divided until the third stage, that is, putting the reform into practice.

[Answer] No, we don't differ here. I agree that the stage of implementing the reform has visibly deepened the divisions among professional economists. Many of them have lost faith in the reform being implemented at all, many others haven't been able to get over the special restrictions introduced by martial law. Others have started to believe the hostile proposition that the system here in Poland is altogether unreformable.

[Question] This seems to indicate that there are subjective differences involved here.

[Answer] Not at all! Whatever problems there might be with people's political attitudes, their discouragement because of martial law, etc., there are also other problems which didn't occur during the first two stages, but began the moment the reform had to be implemented. In other words, it wasn't difficult to think up something new, nor to translate this "something" into a more or less coherent set of legal norms, but the real problems began when all this was confronted with the real world, when it had to be put into practice in the concrete sociopolitical situation of the years 1982-1983.

[Question] Why?

[Answer] Implementation of the reform is much more difficult as it doesn't just depend on those who drew up the conceptual principles or those who worked out how it should look in practice; the success of the reform now depends on whether all of society is prepared to participate in the process of reconstructing the economy.

This aspect of the situation looked unfavorable. As you know, public feeling was running high, there were profound and at times tragic political controversies. Given that the economic crisis, unprecedented not only in Polish terms, was worsening at that time, the material conditions were not good enough to sustain the hope that the reform might be launched successfully.

In short, if national income drops by 25 percent, if the population's real incomes fall even more sharply, and if inflation reduces the value of the zloty by half, there is relatively little chance that people will accept the proposed version of the reform as their own.

[Question] So what conclusion do you draw from this?

[Answer] Above all, that since that time work on the reform has been going ahead in two directions. On the one hand, there is everything connected with the formal side of the problem, i.e., implementation in the classical sense of the term, while on the other hand there is the problem of persuading the public to accept the reform as its own and play an active part in implementing it.

I think that considerable progress has been made in the first direction, but not much has been done in the other yet.

[Question] You've begun to answer a question I hadn't asked yet. I was going to ask you to assess the reform in general categories, to compare the reform in theory with how it looks in everyday life.

[Answer] The reform is a process--this statement has already become a truism. But what it means is that implementing the reform has to extend over a period of time, that we have a certain image of what we are aiming for, which is outlined in the "Directions of Economic Reform," and a certain concrete situation, which determines the effectiveness of everything that has been or is still being done.

When the reform was still on the drawing-board, its authors realized that a so-called interim period would be necessary to implement it. Lawyers and economists both agree that at least three years have to elapse from the time that new rules take effect before it can be said whether they are fulfilling expectations, in this case, before it can be said whether the reform is a success, or not. And please bear in mind (I think I'm probably answering your next question) that we said this some years ago, when no one could foresee most of the problems we have today or how our room for maneuver would be limited. In other words, the adverse conditions in which we are having to implement the reform have prolonged the interim period.

This means that there is a danger at least potentially, that in any comparison between the real scope of the reform and its target model the latter may come off unfavorably.

[Question] What if I asked you for an unambiguous evaluation of the way the reform has functioned up to now?

[Answer] I would say it's being implemented. Contrary to those who are ready to write it off completely, I myself believe that, despite the unfavorable conditions, formal and genuine progress has been made. However, I cannot ignore the facts.

[Question] Which means....

[Answer] Well, since we have these limitations, either it will have to take longer to attain the target model, or that model will itself have to change.

[Question] Once again then, why?

[Answer] There is a certain general reason. After all, the reform was thought up behind a desk, and from the very start some people began to doubt whether the target model of the reform would produce the desired results. I myself take a different view. I am familiar with the reforms carried out in other socialist countries, I have actively participated in all attempts at reform in Poland since 1956, and my experience leads me to believe that the reform currently being implemented is the most mature and internally coherent project we've seen so far. At the same time, it is the most consistent in its pursuit of a goal which we'll have to achieve whether people like it or not--the goal of improving economic efficiency.

[Question] I'd like to say, if I may, that I don't share your optimism....

[Answer] Let's call it moderate optimism. Or even better, let's say I'm no prophet of doom.

[Question] All right. My point is that it's relatively easy to indicate major divergences between theory and practice. Perhaps this doesn't apply so much to the theoretical principles of the reform as to the results it is expected to produce. This applies to the market situation, for instance. Many people say, and in my view they are right, that one of the most important obstacles to economic efficiency is the lack of socialization, or, more precisely, the fact that the reform hasn't filtered down to individual workers.

[Answer] No, I must protest. I've been committed to the idea of socialization, to the idea of workers' self-management, from the very beginning. However, the operations of self-management bodies were suspended, then the suspension was lifted, but now special legal regulations are in force. This institution has to some extent been contaminated by all this and bureaucratized; nevertheless, both the basic laws of September 1981 are still in force. So theoretically, the decision-making process has been socialized. The task now is to restore faith in socialization among the workers themselves, i.e., among those who have to be directly involved in this process.

But the situation is complicated. The fact that self-management bodies are not functioning as expected is not just the result of some reluctance on the part of managerial staff, who have never loved self-management, as they are happiest in the role of quasi-dictators. It is true that a considerable number of these managers do not fit into the model of a socialized enterprise. But it is also true that certain obstacles have been created by the people who should be directly involved in the socialization process.

[Question] These are probably the consequences of martial law.

[Answer] Martial law did indeed exert a negative influence in this respect, as it deprived large sections of the workforce of any direct influence on decision-making. In formal terms, almost the current limitations are unimportant, but the previous ones have left a very deep imprint on social consciousness. As a result, the level of socialization has indeed diminished. The development of the trade unions is a similar case in point.

The situation is changing. But even now, various conflicts occur among those workforces where political and social consciousness is inadequate. These conflicts obstruct the process of socialization. The conflicts that occur are not between the management on the one hand and the trade unions or self-management bodies on the other, but between the unions and self-management bodies themselves between these two institutions of workers' participation! All tensions between these two, whatever their causes, produce delays and adversely affect the reform. The reform is also suffering because workforces are concentrating their attention on the most prosaic of matters--all the long-term

interests of enterprises have been showed aside (and these are the very questions self-management bodies were supposed to occupy themselves with), and people are now concerned with pay, or, more broadly speaking, living standards.

[Question] Yes, but then one important shortcoming of the reform is that it hasn't provided an effective incentive system. Anyway, going back to socialization--would you disagree if I said that shortcomings in this field become even more pronounced when we look at the whole national economy?

[Answer] These can be discussed in the general context of the system of socialist democracy. In drawing up the conceptual principles, we used the term "reform" in a very broad sense, meaning not just economic reform, but reform in general. Due to factors we are all well aware of, the reform of public life in areas other than the economy was either abandoned or slowed down. Now we have to put in a lot of effort to make up for lost time. But it remains a fact that for some time the reform was deprived of support from outside the economy, and suffered as a result.

[Question] It's time we looked at another sensitive issue. The constant modifications to the reform.

[Answer] These are simply indispensable. Many of my colleagues consider the introduction of modifications which change certain principles originally built into the target model to mean that the entire reform is being jettisoned. But those involved in the practical side of the matter generally approve of these changes, with the exception, of course, of those which hit them in their own pockets.

However, these people are often annoyed as well as they'd like to see at least some temporary stability. It should be remembered that these modifications are a means to the end I've already spoken about--improving economic efficiency. Even implacable enemies of the reform don't question the positive changes which have recently taken place in the economy. But we ourselves are discovering that these positive results are costing us too dearly, in other words, we've achieved virtually no improvement of economic efficiency (or if we have, it's been very slight), while quality standards have deteriorated. This should definitely be changed, and one way of doing this is introducing changes in the way the economy functions.

[Question] Nevertheless, productivity statistics indicate that economic efficiency is growing.

[Answer] No, it isn't. Although we've mobilized society to greater efforts, we still don't know how to put these efforts to good use. People don't mind working hard, but they get furious when their work is wasted.

[Question] Since I've already assumed the role of devil's advocate, I have to be consistent. Don't you get the impression that inconsistencies in the implementation of the reform lessen its impact? First of all, there's the excessive growth of the welfare function of the state, which perhaps doesn't clash with the spirit of the reform, but significantly limits the efficiency of its mechanisms.

[Answer] The immense development of these welfare functions has been caused by factors which lie outside the reform. But the reform itself is a product of our desire to change the state of the economy, which, among other things, would make it easier for the state to perform these welfare functions. Nevertheless, one thing is beyond all doubt--the welfare functions of the state have outstripped our actual economic potential. This is because they have been based on the country's general sociopolitical conditions not its economic situation.

In this sense you're right when you say that an excessive development of these welfare functions acts as a brake on all those sectors of the national economy which need assistance if overall development is to be speeded up.

[Question] This gives us a certain picture, although an incomplete one, of the economy and the reform. In this situation, we have to work out ways of unblocking the mechanisms of the reform and improving economic efficiency. But how should this be done, concretely?

[Answer] First a general statement. If there were someone in Poland who knew the answer to this question, all our problems would have been solved by now. In short, the situation is so extraordinarily complex and the number of unknown quantities so enormous, due to the intertwining of social, political and economic factors, that any attempt to find the one and only correct path through this jungle of circumstances, which are often determined by force totally beyond our control, is to all practical intents and purposes doomed to failure.

[Question] Which means that it's correct to depart from the target model of the reform, is that right?

[Answer] I think that the people who are implementing the reform are fully aware of the fact that many of our present problems and limitations were unknown when reform was being conceived.

Going back to the problem of conditions, I'll just say this much--everyone should do what he is doing as well as he can, he should work as best as he can, according to his abilities. The new rules of the game should favor this approach, and if they don't, we'll go on changing them.

[Question] Does it follow from what you've said that the concept of the reform was worked out at the top, but it has to be implemented on the shop-floor?

[Answer] That's right. And this brings us back to the problem of socialization, as socialization means public participation in the process of reconstructing the economy. Please remember that the reform is firmly based on self-management. First of all, no alternative to this has ever been proposed, so in actual fact we have no real choice in the matter. Secondly, since this concept has been accepted, it should be consistently implemented, at least for some time, otherwise we'll never be in any position to say whether it's really workable.

If in a few years' time we discover that this just isn't the case, I'll be the first to call for a new concept. But the reform at the moment is like a newborn baby, which has just emerged into a hostile environment, and it has to be given a chance to start breathing on its own, to prove that it's capable of surviving.

[Question] I get the impression that you're forcing yourself to take an optimistic view of things.

[Answer] I'll be quite frank with you--I find a little optimism is absolutely essential. This is a question of individual character. If I didn't believe that all my years of hard work connected with the reform and the social questions involved in it would bring tangible results, I'd lose all motivation. In this sense, we're all alike.

[Question] So now we know you're an optimist at heart, one last question--when will the economic situation in Poland improve?

[Answer] It will never be as good as we'd like it to be.

[Question] I see I have to put the question more precisely--when will we achieve such a degree of economic development that the last traces of the crisis will disappear from the Poles' consciousness?

[Answer] Judging by the information at my disposal, this will happen by the year 1990. Assuming, of course, that nothing unexpected happens to invalidate this forecast.

[Question] So everyone has 5-6 years of hard work ahead of them.

[Answer] That's right, with the emphasis clearly on the word "everyone."

CSO: 2600/492

GUS DATA ON PERSONAL INCOMES RELEASED

Warsaw RZECZPOSPOLITA in Polish 5 Dec 83 p 4

[Text] According to a Central Statistical Office [GUS] report published a few days ago, monthly salaries in the four main branches of the economy [industry, construction, transportation and communications, and domestic trade-trans. note] during the first 10 months of this year averaged 14,189 zlotys. The average for the first 6 months of this year was 12,829 zlotys. The lowest average salary to date this year is 5,400 zlotys monthly.

GUS estimates that the monthly per capita income of wage earners' families during the first half of this year averaged 8,000 zlotys (inclusive of all social security payments). This average income, however, is a statistical reflection of the very diversified financial conditions of millions of people.

The following is the distribution of per capita monthly incomes of wage earners' families during the first 6 months of this year:

up to 4,000 zloty per capita	1 million people, i.e., 5.4 percent of members of wage earners' families;
4,001-5,000 zloty	1.9 million people, i.e., 10.4 percent;
5,001-6,000 zloty	2.7 million people, i.e., 15.0 percent;
6,001-7,000 zloty	3.0 million people, i.e., 16.8 percent;
7,001-8,000 zloty	2.3 million people, i.e., 12.8 percent;
8,001-9,000 zloty	2.0 million people, i.e., 11.2 percent;
9,001-10,000 zloty	1.5 million people, i.e., 8.4 percent;
10,001-11,000 zloty	1.0 million people, i.e., 5.7 percent;
11,001-12,000 zloty	0.7 million people, i.e., 4.2 percent; and
over 12,001 zloty	1.8 million people, i.e., 10.1 percent of members of wage earners' families.

GUS labeled monthly incomes of up to 6,000 zloty during the first 6 months of the year as "low." Some 5.6 million people (30.8 percent of all members of wage earners' households) fell in the low-income category, 1.8 million (10.1 percent of members of wage earners' families) had incomes of 12,000 zloty monthly, which were classified as "high" (twice the "low income").

It was calculated that in the first half of this year, wage earners' families spent an average of 6,747 zloty per capita monthly, of which 3,224 zloty was for food and 3,232 zloty for other goods and services. These figures do not include adjustments, which should be introduced, since a comparison of these data and national-scale data shows that the respondents gave lower figures regarding their expenditures on alcohol, tobacco and dining out. It is estimated that after these adjustments, per capita monthly spending would average 7,800 zloty.

Of the money spent in the first 6 months of the year, 47.8 percent was spent on food (as compared with 50.2 percent in the first six months of 1982). The lower the per capita income, the higher the relative spending on food items--families with a per capita income of up to 4,000 zloty spent 59 percent of their income on food, families with an income of up to 6,000 zloty spent 55.2 percent on food, and families with an income exceeding 12,000 zloty allocated 37.4 percent of their funds for food.

The greatest part of the money allocated for food purchases in wage earners' families was swallowed up by meat and meat products--34.6 percent, and dairy products and eggs--15.6 percent. Families spent 8.1 percent of all their food money on flour and bread, 1.9 percent on potatoes, 8.8 percent on vegetables, 5.7 percent on fruit and preserves, 1.5 percent on fish, 7.7 percent on fats, and 6.7 percent on sugar and sweets.

With regard to expenditures on services and goods other than food (3,232 zloty monthly of the average wage-earners' family), 4.1 percent of family funds was spent on tobacco, 28.6 percent on footwear and clothes, 20 percent on housing, 6.1 percent on heating and electricity, 18.4 percent on culture, education and leisure pursuits, 6.6 percent on health and hygiene, 10.8 percent on transport and communications, and 5.3 percent on other goods and services.

However, the picture is more diversified than the average figures indicate. The up-to-4,000-zloty-income group spends an average of 79 zloty per person monthly on tobacco, whereas the respective figure for the over 12,000-zloty-income group is 232 zloty. The first group spends 483 zloty monthly per person on footwear and clothes, whereas the latter spends 1,659 zloty. Housing costs the lowest-income group 300 zloty monthly per person, whereas the respective figure for the highest-income group is five times as high, averaging 1,596 zloty. The difference is most visible in expenditures on culture, education and leisure--200 and 1,482 zloty respectively.

Most (over 41 percent) families with a monthly income of up to 4,000 zloty per person (no matter if they are families of manual workers or other employees) are composed of two parents and two children. In this income group, 25.5 percent of families are composed of five people and 15.4 percent of six or more people. Also in this group, 0.5 percent of households consist of one person, 3.4 percent of two and 14.1 percent of three people.

The higher the income, the fewer family members there are: two-person families of manual workers constitute 31.2 percent of workers' families in the 7,000-8,000 zloty income group, three-person families constitute 34.8 percent and families of four are 19.1 percent of all families of manual workers in this income group.

Average numbers of family members of employees other than manual workers with the same income are 26.2 percent of two-person families, 40 percent of three-person families, and 19.9 percent of families of four. Large families are very few in this group; single employees constitute 10 percent of these households.

The dependence between income and family structure is even more obvious in the over-10,000-zloty-monthly-per-capita-income group. Single persons account for 26.4 percent of these households, two-person families 43.9 percent, three-person families 21.1 percent, four-person families 6.1 percent; families larger than four persons are exceptions in this group.

A manual workers' family has an average of 12.9 square meters living space per person (ranging from 10 square meters in the up-to-4,000-zloty-income group to 20.7 square meters in the over-10,000-zloty-income group).

The family of a non-manual worker has an average of 15.5 square meters of living space per person (ranging from 11.5 square meters for incomes of up to 4,000 zloty to 24.4 square meters for incomes over 10,000 zloty per person). There is an average of 1.2 persons to one room (kitchens included).

One in four wage earners' families has an automatic washing machine (26 percent of all families--18 percent of workers' families and 42 percent of other employees' families). One in six has a color TV (10 percent of manual workers' families and 23 percent of other wage-earners' families). Some families have two TV sets (1 percent of families in the over-7,000-zloty-income group and 9 percent of families in the over-10,000-zloty-income group). One in four families has a car (17 percent of manual workers' families and 37 percent of other wage earners' families). Ninety-one percent of all families have refrigerators.

Last year's GUS study included an element of self-evaluation on the respondents' own living standards. Wage-earners' families evaluated their living standard in the following way: 0.5 percent considered their material situation very good; 10.5 percent - quite good, 63.1 percent - average, 21.8 percent - rather bad, and 4.1 percent - very bad.

Last year, 10.2 percent of wage-earners' families received aid from various sources. Of them, 17.3 percent received aid from their places of employment. There were slightly more aid recipients among manual workers (19.1 percent) than among white collar workers (13.8 percent).

Proposed price increases combined with cost-of-living compensations envisage compensations for persons earning up to 7,000 zloty (1st version) or up to 8,000 zloty monthly (2d version). Compensations would be granted to 1.0-1.6 million employees, increasing their monthly incomes by 300 or 400 zloty.

CSO: 2600/496

NEW INCOME TAX RATES FOR PRIVATE SECTOR WORKERS PUBLISHED

Warsaw DZIENNIK USTAW in Polish No 58, 27 Oct 83 item 264 pp 783-784

[Executive Order of the Minister of Finance dated 8 October 1983 on Income Taxes for Workers Employed in the Private Sector and Natural Persons and on Incomes of Attorneys, Members of Attorney-Groups]

[Text] Based on art 5 par 3 and art 10 par 8 of the law dated 4 February 1949 on income taxes (DZIENNIK USTAW, No 7, item 41 with subsequent changes) and art 9 pt 1 and 2 of the law dated 19 December 1980 on tax obligations (DZIENNIK USTAW, 1980, No 27, item 111, and 1982, No 45, Item 289) it is ordered as follows:

§ 1. 1. Wages and salaries paid by the first employer to workers employed in private workplaces and to natural persons and attorneys--members of attorney-groups, are exempt from taxes if the tax-liability base does not exceed the amount of the lowest wages and salaries paid to workers in socialized workplaces as defined in separate regulations, with the exception of workers mentioned in § 3 par 3 pts 2 and 3.

2. The tax exemption referred to in par 1 pertains also to workers employed on a part-time basis.

§ 2. 1. Workers employed for vocational-education purposes or as apprentices, workers living in the Polish People's Republic and employed in diplomatic and consular offices of foreign states, and attorneys, members of attorney-groups, pay tax on wages and salaries paid by the first employer according to the following scale:

Monthly Salary, in Zlotys		Tax Rate, Percent
Above	To	
3,800 -	4,000	11.0
4,000 -	4,200	11.3
4,200 -	4,400	11.4
4,400 -	4,700	11.7
4,700 -	5,000	11.8
5,000		12.0

2. Workers living in the Polish People's Republic and receiving salaries paid outside the country, not mentioned in par 1, pay tax on salaries paid by the first employer according to the following scale:

Monthly Salary, in Zlotys		Tax Rate, Percent
Above	To	
3,800 -	4,000	14.0
4,000 -	4,200	14.3
4,200 -	4,400	14.4
4,400 -	4,700	14.7
4,700 -	5,000	14.8
5,000		15.0

§ 3. 1. The income tax of workers other than those mentioned in § 2, employed in private workplaces and by natural persons, are payable in a lump sum.

2. The basis for calculating the lump sum tax on wages and salaries is the declared monthly wage or salary.

3. The lump-sum income tax amounts to:

1) on wages received by workers employed on farms and paid by the:

- a) first employer, 12 percent, if the wages exceed the sum mentioned in § 1,
- b) the second or further employers, 21.5 percent, but not less than 800 zlotys.

2) on wages received by workers employed in cleaning, guarding property or as kitchen help, and paid by the:

- a) first employer, 12 percent, but not less than 650 zlotys,
- b) second or further employers, 21.5 percent, but not less than 1,200 zlotys.

3) on wages received by workers not mentioned in pts 1 and 2 and paid by the:

- a) first employer, 12 percent, but not less than 900 zlotys,
- b) second or further employers, 21.5 percent, but not less than 1,600 zlotys.

4. The lump-sum income tax on wages received by workers employed in churches and other denominational groups and their organizational units is payable according to the rates set forth in par 3 pt 1, with the exception of organists and choirmasters who are not members of the clergy and workers employed at construction sites, from whom tax is payable at the rates set forth in par 3 pt 3.

§ 4. If the employer pays the income tax out of his own funds, the lump-sum tax due on the wages of the workers mentioned is as follows:

1) in § 3 par 3 pt 1 and par 4:

- a) paid by the first employer, 13.5 percent,
- b) paid by the second or further employers, 27 percent, but not less than 1,000 zlotys.

2) in § 3 par 3 pt 2:

- a) paid by the first employer, 13.5 percent, but not less than 750 zlotys,
- b) paid by the second or further employers, 27 percent, but not less than 1,500 zlotys.

3) in § 3 par 3 pt 3:

- a) paid by the first employer, 13.5 percent, but not less than 1,000 zlotys,
- b) paid by the second or further employers, 27 percent, but not less than 2,000 zlotys.

§ 5. 1. In the case of wages paid for less than a full month, the lump-sum tax is established at the rate of one-thirtieth of the tax due as specified in § 3 and 4, for each day paid.

2. In the case of part-time employment, the income tax payable by workers mentioned in § 3 par 3 and 4 is due according to the rate set forth in § 2 par 1.

§ 6. The following are now invalid:

1) Minister of Finance's Executive Order dated 25 September 1956 on reduction of income tax rates for certain groups of taxpayers and exemption of certain groups of taxpayers from income tax (DZIENNIK USTAW, 1956, No 44, item 202, and 1963, No 13, item 69 and No 15, item 83).

2) Minister of Finance's Executive Order dated 20 February 1968 on income taxes and reduction of income tax rates (DZIENNIK USTAW, 1968, No 5, item 30 and 1981, No 28, item 149).

§ 7. This executive order is effective on 1 November 1983 and applies to taxes due on work performed after this date.

/s/ S. Nieckarz, Minister of Finance

9295

CSO: 2600/425

PRICE CHANGES TRIGGER HIGHER INVENTORY TAXES FOR PRIVATE SECTOR

Warsaw DZIENNIK USTAW in Polish No 60, 17 Nov 83 item 277 pp 803-804

[Executive Order of the Minister of Finance dated 20 October 1983 on the Collection of Taxes Payable to the National Budget as a Result of the Reappraisal of Inventories Held by Natural and Legal Persons Not Employed in the Socialized Sector of the Economy]

[Text] Based on art 23 pt 4 of the law dated 15 December 1972 on an income tax (DZIENNIK USTAW, 1983, No 43, item 192) it is ordered as follows:

§ 1. 1. Natural persons and legal persons not employed in the socialized sector of the economy and other organizational units which do not have legal status, engaged in manufacturing, service or trade, must pay taxes to the national budget on the results of the reappraisal of inventories of raw materials, other materials, unfinished production, and finished products and goods in connection with changes in official prices.

2. The basis for the reappraisals are decisions on price changes.

§ 2. Whenever there is reference in the executive order to:

1) raw and other materials, it is understood to mean raw and other materials which as a result of the production process become a substance of the product or its component part or are indirectly consumed in connection with the production or the services rendered,

2) finished products, it is understood to mean products of prime production, the process of which was entirely completed,

3) goods, it is understood to mean goods intended for sale in an unprocessed state.

§ 3. 1. There shall be no reappraisal of or collection of taxes on inventories of:

1) materials, the consumption of which is charged to the overall costs of production, service and trade, with the exception of solid and liquid fuels,

2) raw materials and materials indispensable to the fulfillment of contracts entered into prior to the date of price changes, if the contract shows that payment for services is to take place according to the price established on the date the contract was entered into,

3) baked goods in restaurant and trade.

2. If the result of the reappraisal of inventories does not exceed 2,000 zlotys in a given month, no tax is owed.

§ 4. 1. The result of the reappraisal of inventories is:

1) as it pertains to raw materials, other materials and goods, the difference between the value calculated according to the new purchase price and the value calculated according to the purchase price in effect before prices were changed.

2) as it pertains to unfinished production (semifinished products) and finished products, the difference between the value of the raw and other materials consumed in production and subject to the price changes, calculated according to the new purchase prices, and the value of these raw and other materials calculated according to the purchase prices in effect before prices were changed.

2. The amount of raw and other materials in unfinished production (semifinished products) and finished products, is established directly (by counting, weighing, measuring, etc.), and if this is not possible, by making an estimate based on calculated consumption.

3. In restaurant operations, food articles, tobacco and tobacco products, are considered to be goods. The provisions of par 1 pt 2 and par 2 apply to food articles in restaurant operations.

§ 5. 1. The results of the reappraisal of inventories which are subject to the price changes are calculated on the basis of lists prepared according to the status on the date the price changes were effective, and if the price changes had not been publicly announced, on the basis of lists prepared no later than the day on which information on the price changes was received.

2. The lists should contain value and quantity data on inventories covered by the price changes. If it is not possible to give the value of the inventories on the day the list is prepared, a quantity list is prepared and the value data is filled in at a later date, but no later than the day that the tax liability is figured.

3. Raw and other materials and goods invoiced by the supplier at prices in effect before the price changes became effective, and enroute to the purchaser on the day the price changes became effective, will be reappraised by the purchaser on the day the deliveries are accepted at the warehouse.

4. Raw and other materials and goods not invoiced by the supplier, which on the day the price changes became effective were in the hands of the purchaser and have been accepted by him, will be reappraised by the purchaser. In these cases the supplier invoices the articles at the prices in effect before the price changes were made.

§ 6. Results of the reappraisal of inventories are subject to taxes payable to the national budget as follows:

- 1) 50 percent of the results of the reappraisal of inventories of raw and other materials and unfinished production (semifinished products) and finished products,
- 2) 70 percent of the results of the reappraisal of inventories of goods.

§ 7. 1. Payments on taxes owed as a result of reappraisal are made to the bank account or to the cashier of the applicable taxation office by the 25th of the month following the month in which the reappraisal was made. By the same date, the taxation office should be sent a summary list of the results of the reappraisal of inventories in a given month, prepared on the basis of lists in inventory-group form.

2. If the reappraisal pertains to raw and other materials the sale of which in finished products occurs over a long period of time, the payment described in par 1 may, at the request of the taxpayer, be made in convenient instalments.

3. If the reappraisal of inventories and the calculation of tax owed pertains to inventories on which prices have been reduced, the basis for the tax liability is the plus balance of the results of the reappraisal of inventories.

§ 8. The executive order is effective on the day of announcement and applies to the results of the reappraisal of inventories in connection with price changes made after 31 October 1983.

/s/ S. Niecekarz, Minister of Finance

9295

CSO: 2600/424

MERITS OF COMMAND-DIRECTIVE, DECENTRALIZED ECONOMIES DEBATED IN POLITYKA

Reformable Reform

Warsaw POLITYKA in Polish No 49, 3 Dec 83 p 4

[Article by Leon Podkaminer]

[Text] People change their views as time goes by. However, the general principles of the reform have not been subjected to a reconsideration so far. Meanwhile the difficulties accompanying its implementation are, in my opinion, a sign of the internal weakness of its main assumptions. I fear that further efforts to correct the reform on an ad hoc basis will only shape a system that will combine the disadvantages of market economy and of the command-and-quota system of management.

At the root of the reform lies an intellectual ferment in the economic community. In the autumn of 1980, many of them came out for the decentralization of the economy, whose main features were to be the autonomy, self-financing and self-government of state-owned enterprises. An addition to the automatized enterprises was to be a free market that it would not be possible to manipulate, that would objectivize the shaping of incomes and prices. There was also a certain, rather indefinite, amount of space left for state intervention.

It is really difficult to understand why the communist reaction to the excesses of the economic policy of the 1970's took on the shape of a frontal assault on the command-and-quota system combined with a simplified affirmation of a decentralized market economy. But then, the essence of the command-and-quota system is not so much the stage-directing of all the moves of enterprises but first of all constant care to maintain the right proportions between directives addressed to individual units. This is the only aim of the complicated and costly drawing of central balance sheets of supplies and output, which should serve as the basis for planning the tasks and means assigned to individual branches and factories.

In the economic practice of the 1970's the directives were not sufficiently subordinated to the central balance sheets. The "Center" appeared not to attach too much significance to the observance of the laws of conservation of matter

embodied in the central balance sheets. There was the widespread conviction that there was plenty of unused potential in industry. As a result, the command and quota system changed into a command system while the manufacturers were left to secure the means of carrying out the commands on their own. Gradually, as fewer and fewer reserves were left to be tapped, the whole system became pure fiction: impracticable commands were nevertheless carried out, albeit only on paper. The widespread practice of adding huge and often redundant additional projects to already approved investment programs could not but produce strains tearing the whole economy apart.

The kind of decentralized and "marketized" economic model which was acclaimed in 1980 as the ideal solution for a socialist economy could only be of interest to a modern economic scientist as a case of far-reaching abstraction. It should even be doubted whether this model could be used to describe highly developed capitalist economies in which the classical market relations and decentralization are at best limited to the consumer market and rather peripheral markets for the means of production. Even if all the reservations against identifying West European economic patterns with the principle of decentralization and lack of state intervention, some doubts still remain. Why should the principle which has been evidently ineffective in Turkey, Chile and ten more countries have a miraculous influence on Polish economy?

The Yugoslav experience offers little incentive to a mechanical marriage of socialism to market economy.

Sticking to our own yard, can we really say that Poland's private farms, which are certainly decentralized with only a limited use of command-and-quota instruments, are terribly efficient? A comparison between yields recorded in Polish private farms and those of the centrally (and competently) managed East German farming does not lead to conclusions that would clearly favor decentralization.

I think it is necessary to reconsider the very spirit of the reform, its three cornerstones: the autonomy, self-financing and self-management of the enterprise. Let us look at autonomy first. Unquestionably, it is an extremely powerful source of inventiveness and businesslike thinking. However, this business shrewdness does not always serve public interest. It is true that when there is general equilibrium achieved in conditions of perfect competition (i.e., competition free from any monopolistic deformations) the manufacturer's egoism and greed serves the interest of all in an optimum manner.

In these conditions, the suppression of the autonomy of enterprises and their subordination of any non-market signals is bound to harm social interest by distorting either the structure of production or that of outlays.

But what is the outcome of the autonomy of enterprises let loose at a time when there is no balanced market and no competition? It is enough to take a look at the state housing construction, where, it appears, all the resources of inventiveness are used for the pursuit of narrow interests, to the detriment of society.

The principle of autonomy of state-owned enterprises which makes them free to shape not only their output but also their prices is erroneous and harmful to the whole economy. This principle ignores the fundamental tenets of the science of economic monopolies and is bound to lead to losses which will involve not only distortions of the structure of production and consumption of means but also the incomplete utilization of the productive potential and objectively unwarranted redistribution of incomes on the scale of the whole economy.

Compared to other countries, the Polish economy is characterized by an exceptionally high degree of concentration of industrial production and construction. This result of the economic policy pursued for the last 30 years or so determines the objective technical premises of the existence of monopolistic trends in Poland. It has to be taken for granted that as a rule the freedom of setting prices will be abused. However, it is impossible to expect the market forces to be able to effectively counter this threat. The inevitability of central counteraction limiting the freedom of enterprises in this respect is therefore obvious. It will not be possible to limit this interference to the question of prices either.

Let me now proceed to self-management. It should be borne in mind that a state-owned enterprise is using fixed assets funded by the whole society, i.e., in the main by the thirty-odd million people who just do not happen to work in the enterprise in question. For obvious reasons, those who invested their money in a project expect it to yield a profit. They want it to be honestly earned, not a monopolistic profit obtained by holding the consumers to ransom, and they neither want it to be too low (as is the case when prices are so high that the product stops selling). It is therefore the duty of every state enterprise to produce a maximum honest profit and pay objectively justified wages to its workforce, i.e., wages that will not cause them to move to another employer. An attempt to curb the profit of a state-owned enterprise by granting an economically unjustified raise to employees is in point of fact an attempt to deprive the 36 million investors of the dividends they are entitled to expect.

The same can be said of the generously handed out 13th, 14th and further monthly pays, sanctioned by the regulations governing the reformed system of management. This even occurs when the profit is mainly produced by head accountants who skillfully go around problems connected with the reevaluation of productive assets.

To sum it up, I shall say that while the workforce of an enterprise should have a lot to say on internal matters of the company, it may not have a decisive say on the wage (or bonus) fund. Similarly, it must not determine the amount and quality of labor it would be ready to supply at a given level of pay, profit or prices.

If the workers organized in a trade union (or a workers self-management body) dictate their terms to the employer from a monopolistic position, we are dealing with a typical monopolistic deformation which is as harmful to the public as it would be in the case of a free market.

The third pillar of the reform is self-financing. It is obvious that enterprises should bring profits not losses. The principle of self-financing interpreted as the lack of consent to the squandering of public funds, i.e., to the subsidizing of mismanaged enterprises, is beyond dispute. However, dilemmas arise when it comes to financing investment projects.

The economy has to commit again a great deal of money to development projects. There is a need for new plants but not giant showcase ones but ones that will be perfect hits and will be useful for many decades. Who is to finance the building of hundreds and thousands of new plants that shall be vital to the country's future? The self-financing formula appears to be absolutely barren in this respect. The time needed to get back the invested money and the amount of risk involved will be so great that in the specific Polish conditions only the state budget can underwrite the crediting of the renewed industrialization of the country; no "people's stock exchange" can do this.

Irrespective of all other circumstances, the balance of demand and supply of all goods and services is one of the supreme values in any economy. In every economy, the lack of equilibrium causes tangible losses to society at large and to every individual. It is of secondary importance whether this imbalance is caused by the lack of appropriate state intervention, or, on the contrary, is a result of erroneous central-level decisions regarding prices or wages. The general thesis, a plainly mathematical and not economic one, which was first proved by Oskar Lange if I remember well, is that when prices responsible for the inequilibrium are replaced by equilibrium prices, the only losers are the profiteers. On the other hand, everybody--save the holders of various yet unused "cut-price" coupons for the purchase of various goods--can profit by the move.

While discussing the shaping of the system of management of the economy it is particularly important to take into account the potential a given solution offers for restoring equilibrium. Practice has shown that the command-and-quota system of management offers this possibility. The early 1960's in Poland and a long post-war period in Czechoslovakia were a time when central planning of wages and prices accompanied the central planning of targets, means and consumption. Therefore, it can be said that the implementation of the command-and-quota directives and of the plans of consumption of goods by the population proceeded in conditions of equilibrium. The society implemented its consumption plans without profiteering, queuing or rationing. In production, the implementation of the plans did not require a hectic pursuit of scarce raw materials, workforce or privileges usurped by the suppliers of one kind of products or another. The execution of command-and-quota directives and "dictatorial" consumption plans for the population proceeded painlessly. The generally correct proportions of incomes to prices shaped demand and supply at a level corresponding to the assumptions of the central plan.

However, the success of balancing an economy operating in this manner requires a competent preparation of central plans as well as competent central control of wages and prices. Only a harmonious coordination of these two aspects of planned economy creates a chance of a truly efficient steering of economic processes.

I fully uphold the view that a free-market, free-competition equilibrium and a matching structure of prices and incomes is the optimum solution from the social point of view. However, I fail to perceive even a trace of evidence that such a mechanism may bring an economy that has been knocked out of a balanced state back to this state again.

One does not have to be a Marxist to distrust the balancing properties of a free-competition market, let alone a market hit by monopolistic deformations. Contemporary economic science in the West by no means takes a superlative view of such a model. The inseparable traits of a market economy deprived of state supervision are prolonged crises of inequilibrium, unemployment, inflation, stagnation and stagflation, combined with wild fluctuations of prices caused by stock market speculation. Not without reason, the greatest brains in the West are beginning to study the methods of stabilizing and balancing the economy through state intervention. I therefore suggest that things should be taken for what they really are.

Giving Reform a Chance

Warsaw POLITYKA in Polish No 49, 3 Dec 83 p 4

[Article by Andrzej Mozolowski]

[Text] On the surface, the reasoning of Leon Podkaminer is straightforward. At the root of our economic troubles lies the absence of equilibrium. If we manage to restore it, the reform will not be necessary. This can be achieved by the command-and-quota system with the help of competent central balances, so what's all the fuss about?

But as matters stand, we had the command-and-quota system for the decades of People's Poland's existence, with the omnipresent central balancing of everything with everything. And what? Can Podkaminer point to a single quinquennium of harmonized development. Can we take pride in even a small dose of "competent central planning of wages and prices?" Were we not developing the economy in a process of permanent disequilibrium--at first justified by the theory of primary of production [over consumption] and later pursued without any justification but instead with a great deal of arbitrariness?

Podkaminer writes that the complete disintegration of the economy in the 1970s came as a result of the decision makers' neglect of central balances. Correct. This is in fact the crux of the matter. Under the command-and-quota system, the center can order everything and it can ban everything as it pleases, including the neglect of central balances and much more nasty things. And these opportunities were taken advantage of with abandon. There was no mechanism preventing the center from making wrong decisions, and each such decision had a national dimension. Czechoslovakia, too, was not spared serious troubles by this system.

I was all for the publication of Leon Podkaminer's article. He is not alone to espouse such views, and he can present them brightly and convincingly. Such views can gain popularity in step with the emergence of new shortcomings and paradoxes in our economic reality. There can be no pretending that such shortcomings and paradoxes do not exist. They should be revealed but at the same time their true nature should be explained. They will not be eliminated through a return to the command-and-quota system and the omnipresent central balancing but instead precisely through a consistent and patient implementation of reform.

When presenting the parametric system of management and the three S's [standing in Polish for autonomy, self-management and self-financing] as an alternative to Podkaminer's command-style method, I am not going to enumerate and praise all their advantages which have been presented in the press for the past 3 years. But let me draw attention to Podkaminer's method of arguing, aimed at making the reform repugnant to the reader. The model he subjects to severe criticism does not exist, at least in Poland. This is a model in which the pricing freedom reigns supreme despite disequilibrium. But in Poland most prices (including 80 percent of food prices) are subjected to state control and will remain so till the restoration of equilibrium. This is a model in which "the workers organized in a trade union (or a workers self-management body) dictate their terms to the employer from a monopolistic position." Has anybody heard about something like this in Poland? Perhaps in some programs of Solidarity. But Podkaminer takes issue with neither Solidarity nor even Milton Freedman who contributed to Chile's economic troubles. He takes issue with Prof Baka and this is some difference. And finally, the model he criticizes is one in which "a great deal of money for development projects" is said to be allocated according to uncontrolled decisions of individual enterprises. In reality it is the center which the reform vests with the power to carry out the principal capital undertakings.

Generally speaking, the scope of direct control over the economy granted the government under the law on reform and the law on enterprises (in foreign trade, areas of particularly great importance for the functioning of the economy, finances, personnel policy, etc.) is so great that it is probably oversize. There is no fearing the uncontrolled market elements against which Podkaminer warns.

He mentions the decentralized private farming in Poland. Is it really a cause for feeling ashamed? On the contrary. If only our entire centrally-managed economy could report such efficiency as [private] farming we would now live in a conviction that socialism is immune to crises.

But I agree with Leon Podkaminer--and with Oskar Lange--when he says that no one will lose on the replacement of equilibrium prices for disequilibrium prices. Let us hope this replacement will not be enforced in a command-like, administrative style, which might push half of society into poverty. For this reason, we have to recover from the crises in a slow and patient manner. Impatience leads either to abandonment of reform or to its being over-reformed. I do not know whether the reform is reformable, as Podkaminer asks it in the title of his article. But in my opinion, it need not be reformed at all. What it needs is being given a chance.

BRIEFS

NEW POWER GENERATING CAPACITY--At the "Leg" thermal-electric power plant in Krakow work has begun on the systems startup of a third turbine generator unit, which will supply 100 megawatts of electricity and 160 gigacalories of thermal energy after it is tied in with the national power grid at the end of January. The plant management reports that the first 72-hour test run of the turbine unit should take place in the middle of January. The commissioning of this third turbine unit will go a long way toward alleviating the thermal energy shortage in Krakow. [Text] [Warsaw RZECZPOSPOLITA in Polish 7-8 Jan 84 p 1]

'URSUS' PRODUCTION RECORD--Last year, the Tractor Industry Association manufactured 55,400 tractors, i.e., 400 more than were called for by the plan. Sales to the domestic agricultural sector and export sales included 19,500 30-hp tractors and more than 30,000 intermediate power tractors. Over the past year the "Ursus" Machine Building Plant assembled nearly 5,400 heavy wheeled tractors manufactured under the terms of a co-production agreement with Czechoslovakia. This year's production plan approved by the Tractor Industry Association calls for the assembly of 58,500 tractors and 12,000 Perkins engines. "Ursus" plans to boost its output of tractors produced under foreign license, of which 447 were assembled last year, to 3,500 units. [Text] [Warsaw RZECZPOSPOLITA in Polish 6 Jan 84 p 1]

HOUSING WAITING LISTS 'POINTLESS'--Toward the end of every year housing cooperatives usually post lists of persons to whom housing will be allocated during the coming year. In 1983 Warsaw housing cooperatives drew up such lists covering housing allocations for 1983 and 1984. Veteran cooperative members, most of whom have been waiting for housing since 1973 and earlier, are named on these lists. Altogether, these lists contain 12,000 names. In view of the expected nonfulfillment of housing construction plan targets for 1984 and also considering the substandard quality of the 1984 draft plan, the practice of drawing up such lists is utterly pointless. All the more so, since pursuant to Resolution No 15 of the Council of the National Association of Housing Construction Cooperatives, bonus housing assignment preferences were given to people on the waiting lists who are currently living under extremely poor conditions. The only thing left for the cooperatives to do is to draft hypothetical allocation lists pegged to the vaguely defined provisions of plans for new housing construction in 1985 and 1986. Under these circumstances many housing cooperatives have given up the practice of drawing up such waiting lists. [Text] [Warsaw RZECZPOSPOLITA in Polish 29 Dec 83 p 5]

NEW POWER PLANT UNIT--The two power generating units at the "Belchatow" power plant have so far generated nearly 5 billion kilowatt hours of electricity. Another important engineering operation was carried out on 12 December, i.e., a third turbo-generator was synchronized with the national power grid. "We have successfully completed all technical operations, and on the very first day that it went into service this third unit generated more than 200 megawatts of power," reports Jan Tokarz, power plant deputy manager. "We project that by the end of December the third generating unit will reach a power output rating of 360 megawatts. The aggregate power output rating of our plant will then come to 1,080 megawatts, that is, already 25 percent of its ultimate power generating capacity." [Text] [Warsaw TRYBUNA LUDU in Polish 13 Dec 83 p 1]

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ECONOMIC EFFECTS OF CHANGE IN ENERGY BASE IN CHEMICAL INDUSTRY

Bucharest REVISTA ECONOMICA in Romanian No 46, 18 Nov 83 p 10

[Article by Dr Ionel Grigoriu and R. Stefan]

[Text] The solution to today's complex problem of supplying the national economy with energy and raw material resources, has imposed in addition to research and the constant improvement of conventional technologies, the formulation of industrial technologies capable of exploiting energy resources with greater efficiency. The research conducted in recent years under the direct coordination of the National Council for Science and Technology, has shown that future economic development is directly connected with the pursuit of new technologies capable of significantly reducing consumption per unit product (which, outgrowing the physical limits of technologies that have been considered as conventional until now, find themselves in the category of unconventional technologies).

Unconventional Technologies--Option of Modern Chemistry

Unconventional technologies, unlike conventional ones, broaden the base of processing technologies, reduce material and energy consumptions, and improve product quality. Within these technologies, energy is used in a concentrated form, in very short pulses, and at high levels of energy efficiency, compared to conventional technologies in which processing energy is applied in a continuous manner and at relatively low energy efficiencies. The definite advantages of unconventional technologies have caused them to rapidly spread to the major industrial branches (machine construction, chemistry, metallurgy).

In the chemical industry, new products are being manufactured with unconventional technologies, using technical means that have not been been applied previously, and whose low energy investment leads to significant energy reductions throughout the national economy.

The world energy crisis has forced the development of the branch through production modernization and improved utilization of the raw materials allocated by the plan. We have consequently experienced, year after year, a significant growth in physical production while reducing specific consumptions

of raw materials and energy. In other words, this year's increase in physical production is achieved with an energy consumption equal to that of last year, as a result of implementing the program of measures that seeks to restructure production along energy lines.*)

Although the achievements of recent years are significant, the need to promote unconventional technologies, and implicitly to change the energy base, appears evident if we examine the present structure and level of energy resource and raw materials consumption in chemistry. The magnitude of this phenomenon is even more evident when we consider that the 1982 cumulative energy consumption amounted to 28.5 percent of the domestic production of primary energy resources.

Modifications in the Structure of Resource Consumption

In restructuring the primary balance of fuels and energy as a result of gradually reducing the consumption of liquid and gas hydrocarbons, the future development of the chemical industry will seek to change the current energy base, as well as to more rapidly promote unconventional technologies. An analysis of the economic implications of changing the current energy base in chemistry, as a result of shifting to lignite use, thermal plants and power plants that had originally been designed for hydrocarbons (methane and oil), leads to the following conclusions.**)

1. By the end of 1985, our chemical industry, at its industrial sites, will consume from its own resources approximately 69 million tons of steam, more than 3.0 million Gcal of hot water, an 1.7 JWh/year of electric power. These energy requirements will be met with 3 billion cubic meters of natural gas, significant amounts of oil, and approximately 200,000 tons of conventional fuel free reusable energy resources.
2. More than 27 industrial sites will be connected to the network of the Ministry for Electric Power (MEE). Using fuel grade lignite, these industrial sites will produce approximately 3500 tons of steam per hour, 650 Gcal/h of hot water, and over 20 MW of electric power, relieving the present energy balance of the chemical industry of approximately 1 billion cubic meters of natural gas, more than 170,000 tons of oil, and 20 tons of light liquid fuel.
3. The energy base of the other industrial sites is presently being redesigned. Technical-economic studies to support the decision to modify the chemical industry's energy base estimate the energy conversion of more than

*) Last year's development of the chemical industry was discussed in the paper "Fulfillment of the Production Modernization Program and Superior Exploitation of Raw Materials, A Great Accomplishment of Chemical Workers," by Gheorghe Caramfil, REVISTA DE CHIMIE, No 1/1983, p XI.

**) An analysis of the economic implications of changing the current energy base of the chemical industry, was discussed more extensively in the paper "Unconventional Technologies From the Thermal Energy Standpoint in the Chemical Industry," by I. Grigoriu, R. Burbea, St. Ragalie, in Brasov, September 1983).

20 million tons of lignite, and the saving of about 2.3 billion cubic meters of natural gas, as well as of 320,000 tons of oil, hydrocarbons that will become available for chemification.

4. In the future, in order to conserve hydrocarbons, the change in the energy base of the chemical industry will be approached in two stages: a) replacing about 190 steam generators and more than 30 hot water boilers, which are now operating with hydrocarbons; and b) gasifying lignite, which, when used together with small amounts of methane and oil, will provide part of the energy requirements of consumers in the chemical industry.

5. The implementation of the scientific research carried out in recent years to make available natural gas and oil through the use of gas synthesized from lignite gasification, combined with the promotion of unconventional technologies, will be the major future orientations for bringing energy consumption in chemistry to planned levels, as part of the current process of changing the domestic energy base. In this respect, some of the recent concerns of the Institute for Chemical and Biochemical Energy Sciences are aimed at: a) exploiting the biomass through direct burning, gasification, pyrolysis, methanization, and the production of ethanol-methanol; b) using methane reserves with a high content of carbon dioxide; and c) chemifying lignite, with hydrogen, synthesized gas, ammonia, methanol, ethylene, and propane as final products.

Delving on the research at one site, the Govora-Horezu-Rimnicu Vilcea site for instance, the studies carried out until now have shown that the complex chemification of lignite, salt, limestone, water, and air, can not only change the energy base of this industrial site, but also introduce unconventional technologies that will result in the pilot installation of a high temperature reactor for hydrogasifying the Horezu lignite. Research has shown that the complex hydrogasification of lignite, of methane with a high content of carbon dioxide, and a certain amount of hydrogen, can assure all the conditions necessary to meet local fuel requirements.

Considering the progress achieved so far throughout the world, that has allowed the rapid promotion of unconventional technologies in large chemical units and has made available significant quantities of hydrocarbons, the studies carried out in our country have shown that the implementation of unconventional technologies to modify the energy base of the chemical industry, is possible and efficient both economically and from an energy standpoint.

It can be estimated that in recent years, in the exploitation of energy and raw material resources in the chemical industry, we can speak of an accelerated promotion of unconventional technologies that can reduce material and energy consumptions per unit product, as part of the modification of the domestic energy base, by shifting thermal sources in the chemical industry to coal and releasing hydrocarbons for chemification.

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SHORTCOMINGS IN SPARE PARTS PRODUCTION, ALLOCATION

Bucharest REVISTA ECONOMICA in Romanian No 46, 18 Nov 83 pp 11-12

[Article by V. Boescu, C. Barnea]

[Text] In every enterprise, steady production that proceeds on schedule depends on the full utilization of the time available for machines, tooling, and installations, and on keeping them in perfect operating condition through appropriate maintenance and repairs.

The recent plenary session of the Central Committee of the RCP has once more stressed the need to maintain and repair fixed assets on time and with good quality work. "We must take all measures," Nicolae Ceausescu has pointed out, "to review the repair and maintenance program; the general investment plan--and to supervise its proper fulfillment. The above are highly important for the best conduct of all our activity, and for achieving our production and the other indicators stipulated in the plan."

In recent years, as a result of the measures adopted by the party and state, significant progress has been noted both in increasing the utilization indicators of fixed assets, and in maintaining them in good operating condition. A particular contribution in this respect was also made by the better organization of maintenance and repair work, as well as the scheduled supply of spare parts. Despite this, in some sectors, such as construction, agriculture, energy, metallurgy, and chemistry, the lack of spare parts is being felt, affecting the rapid completion of current and capital repairs for various basic installations and equipment. This situation also has repercussions on the normal pursuit of activities, and on the fulfillment of physical plan tasks, causing a chain reaction on other sectors of the economy. What is the actual situation in spare parts production?

A Program to Stimulate Production Growth

Following an analysis of the accomplishments of the capital repair program for tooling and installations throughout the economy, the Executive Political Committee of the Central Committee of the RCP approved in April 1982, a program of measures to improve activities in this area, and to increase the

Spare parts production in the major economic ministries (9 months of 1983)

Ministry	Production total	New parts in current production	New parts adopted	Rebuilt parts
MICH	112.2	106.8	126.6	120.1
MTTC	110.6	106.1	117.1	114.1
MCInd	117.6	115.4	118.8	118.8
MAIA	116.0	113.0	340.3	115.3
MICM	95.6	95.7	104.4	86.8
MINUEE	118.3	117.9	188.3	77.0
MEE	94.7	97.5	112.9	88.7

MTTC - Ministry of Transportation and Telecommunications

MCInd - Ministry of Industrial Constructions

reliability of all installations, machines, and tools. Ministries and the managements of all units have been asked to act decisively to strengthen order and discipline, and increase responsibility for the maintenance and utilization of machines, tools, and technical installations, in order to manufacture spare parts with internal personnel and fully comply with contractual obligations in this area, thus assuring the most efficient use of our country's production potential.

These measures launched a number of actions, particularly in energy, mining, transportation, the chemical industry, metallurgy, and so on, to organize repair and maintenance departments and shops, as well as the internal production of spare parts. It should be noted that during this year, the production of spare parts has grown significantly with respect to 1982. For a nine-month period, 106.6 percent of the production of spare parts was completed (78 percent of the annual plan), with the following structure: 103.8 percent for new parts, 128.8 percent for adopted parts, and 112.4 percent for rebuilt parts. The situation of these achievements in terms of economic ministries, is shown in the table.

First of all, the table shows the more rapid growing trend in the production of newly adopted and rebuilt spare parts. This situation is created by the greater availability of domestic spare parts and the fact that imported spare parts have been reduced to a minimum. Additionally notable is that nearly all ministries have not only understood the need for these changes in the supply of spare parts, but also that they act consistently in various ways to increase the value and quantity of newly adopted and rebuilt spare parts.

This orientation is also stimulated by the fact that in addition to rebuilding requirements, the new consumption standards have included a stipulation for reusing spare parts obtained from salvaged and dismantled equipment. As a result, a large amount good spare parts which in the past were turned over to steel plants as scrap, are now selected, rebuilt if needed, and returned to use. This not only leads to large material and money savings, but also assure more rapidly a wide range of such products.

Of course, the measures taken to meet spare parts requirements have also included other features. Such are the extensive actions undertaken by the large units in all branches, to build increasingly large quantities as well as a broader selection of spare parts. Measures were taken in this respect to improve the load of facilities available for spare parts production, and improve fabrication technologies and the quality of materials.

The data listed in the table also shows that in such ministries as MICM (Ministry of the Machine Building Industry), MIMUEE (Ministry of the Machine-Tool Industry, Electrical Engineering, and Electronics), and MEE (Ministry of Electric Power), the spare parts production program was not fully fulfilled, either in total figures or in some of the derived indicators. Of the total number of items monitored throughout the national economy, more than 900 (the great majority of which belong to these ministries) are in arrears. Among these, there are 83 items (gear boxes, crankshafts, and so on) for internal combustion engines (supplied by the 23 August enterprise in Bucharest), 18 types of piston rings (Pitesti Automobile Enterprise), cylinder liners and cast pistons (Cimpina Mechanical Enterprise), valves, cylinders, and distributors (Progresul enterprise in Braila), and so on. Moreover, no deliveries were made this year for approximately 400 items. The major enterprises that are in arrears with these parts are: 23 August, Semanatoarea, the Bucharest Enterprise for Electrical Machines, Hidromecanica of Brasov, Unio of Satu-Mare, Progresul of Braila, and Electroputere of Craiova.

Similar situations are also encountered at other ministries, seriously affecting production and the supply of spare parts. Arrears in the production of spare parts have been noted at the ministries of the metallurgical industry, electric power, oil, mines, and agriculture and the food industry. Some enterprises in those ministries have operated for months during this year without having established plan tasks for the production of spare parts. This situation has obviously created and is still creating chain reaction difficulties both for the economy as a whole, and for industrial enterprises, in terms of scheduled completion of planned repairs, full operation of all available equipment, and meeting planned material costs.

The causes for this situation are numerous. Major among them are the inadequate vested interest of enterprises in producing a varied range of spare parts in small lots, as well as as organizational ones regarding the establishment of spare parts inventories that must be produced by one ministry or another. Decision making factors must clearly intervene in both cases, so that the interests of the national economy will take precedence over the narrower ones of some enterprises. The early elimination of these situations would have increased the interest of enterprises in manufacturing a larger portion of the spare parts required by the economy, while avoiding the practice of avoiding some spare parts that are more difficult to produce (often at higher cost).

If we consider the fact that a large portion of the subassemblies and spare parts that have not been produced are intended for repairs planned for 1983 and 1984 in some important sectors of the national economy (the extractive,

chemical, energy, metallurgical, and other industries), and that that law stipulates the obligation of suppliers to fully assure the spare parts necessary for equipment repairs in accordance with the distributions issued by balance coordinators, it appears absolutely necessary to eliminate the shortcomings cited here, and to intensify the concern of the ministries involved to fulfill established plans, so that the existing arrears will be recovered as rapidly as possible. In this respect, an extensive analysis of the factors involved--balance coordinators, MATMOGPF (Ministry of Technical-Material Supply and Control of the Management of Fixed Assets), large centrals, and supplying enterprises--has established concrete measures which will lead to improvements in these activities:

1. Bimonthly analysis of the stage of compliance with contract obligations and with the spare parts program, in terms of totals and types of items. In this respect, MICM, MIMUEE, and other production units have received the task of updating delivery schedules to include the arrears recorded until now;
2. Adopt with priority spare parts and subassemblies intended for the maintenance and repair of imported machines and tooling;
3. Significantly increase the proportion of recovered and rebuilt spare parts at the expense of new ones from current production;
4. Rigorously establish for 1984, requirements for spare parts and subassemblies in accordance with the degree of wear of machines, installations, and tooling in the economy;
5. Assign in each enterprise, special personnel responsible for supervising the fulfillment of plan provisions for spare parts quantities and types (their remuneration being closely associated with the scheduled fulfillment of plan tasks), and so on.

Scientifically Regulated Spare Parts Consumption

Expenses for the capital repair and maintenance of fixed assets are a significant proportion of production costs. The essential requirement for reducing these expenses is to constantly maintain every machine, tool, and installation in operating condition, and to avoid overloading. Although the experience of many units fully demonstrates the overwhelming importance of care toward technical resources, there are unfortunately still quite a few cases in which the responsible factors in various units do not devote the necessary attention to this fact, lightly overlooking the need to raise the personnel's awareness of the need for greater professional responsibility in the level of utilization of each installation and machine.

Effective measures to correct the slightest defects avoid much greater subsequent expenses for repairs and assure the continued operation of each piece of equipment or machine. In this regard, the organization of control and maintenance procedures in well equipped shops and work stations with

adequate working conditions, significantly reduces maintenance costs and the use of spare parts. What has been done, and what measures need to be taken in the future to efficiently maintain and repair tools, machines, and installations, and to reduce costs through better spare parts management?

An analysis of the utilization of spare parts in some large units and ministries, shows that consumptions are significantly exceeded in many instances. This situation is caused on one hand by a failure to comply with capital repair schedules for basic equipment so as to maintain them in production for longer periods, thus using a larger number of parts, and on the other hand by the performance of poor quality repairs, requiring new interventions and additional consumptions of spare parts.

Cases have also been observed in which some equipment became defective sooner than expected as a result of improper use by poorly qualified personnel, requiring unplanned spare parts for repair. A large contribution to this situation came from an erratic activity in fulfilling plan tasks, when some machines and equipment had to be overloaded to recover arrears. There have also been instances in which some spare parts were of poor quality, and so on.

Of course, in all of these cases, both the enterprises and the industrial centrals could have found solution to prevent an excessive consumption of spare parts, and through their own efforts even supply some types of spare parts without which various pieces of equipment could not be repaired in time.

A particularly important problem in this respect is the recovery and rebuilding of spare parts. At the national level there exist about 215 recovery standards for categories of fixed assets of a general nature--tanks, lathes, means of transportation, and so on--which among other things also stipulate rebuilding procedures, standard consumptions established for each category of spare parts, and so on. Under normal conditions, this organizational framework allows the manufacturing of low consumption spare parts, reduction of material costs through recovery, and so on.

Unfortunately, today's situation discloses some arrears. Investigations have shown that so far, approximately 104 plan items for capital repairs are incomplete (23 percent of the total), of which 63 at MIM (Ministry of the Metallurgical Industry), 19 at MICH (Ministry of the Chemical Industry), and 11 at MEE. If to this we add the fact that the proportion of new spare parts is still high compared to recovered and rebuilt ones, it can be readily seen that very large material and manpower expenditures are used for spare parts. This entails either unjustified repair costs, or the failure to carry out interventions for some equipment due to a shortage of spare parts, with most unfavorable effects on consumption in both cases.

The audits performed by MATMCGFP specialists in a number of units from various economic ministries (MIM, MICH, MIMUEE, MEE, the Ministry of Oil, and so on), have shown that some enterprises do not demonstrate an adequate concern for fabricating spare parts with lower material consumptions. Moreover, enterprises do not have the necessary intervention stocks or have excessive

stocks, even though the necessary inventory of spare parts is not completely filled. In all these situations, maintenance and repair activities suffer in terms of schedules and efficiency, as well as in terms of material costs. That is why it is imperative, both for the remaining period of 1983 and for 1984, that ministries, centrals, and enterprises which produce spare parts become more active not only in assuring the necessary spare parts, but also in manufacturing them with lower consumptions of good quality materials, which will eliminate consumptions in utilization and in repair activities.

The same audits have also disclosed that quite a few enterprises use spare parts that are inadequate for the repaired equipment, or use larger than standard amounts for the same operation, either due to poor personnel qualification in repair shops, or to the lack of certain spare parts, or yet to the poor reliability of other spare parts. These shortcomings naturally result in a failure to complete repairs on schedule for some basic equipment, poor reliability of the repaired equipment, an unjustified consumption of spare parts, and excessive material costs.

Many measures can be taken to correct these situations. The problem is to increase the responsibility of units, industrial centrals, and ministries in rationally using spare parts and subassemblies both from their own production and from collaborations. In addition to more careful supervision of the manner in which spare parts stocks are formed and in which these are used in repairs, this also implies the introduction of economic indicators which will provide greater encouragement for each enterprise to manage its available spare parts with maximum efficiency. These indicators should be established so that the workers' collectives responsible for this problem throughout the industry, from the receipt of spare parts to their utilization, will become more involved (going so far as the determination of remunerations) in the rational utilization of spare parts.

At the same time, it would be necessary for existing indicators to be considered more closely in establishing the extent to which repair and maintenance personnel has fulfill its plan tasks, so that care for the proper management of spare parts and subassemblies in this activity will become a major concern.

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BRIEFS

INA PRODUCTION PLANS--According to initial projections, in 1984 INA plans to process about 6.4 million tons of crude oil; a total of 4.1 million tons will be imported (2.1 million tons from the East and 2 million tons from the West), while INA will produce 2.84 million tons itself. At the same time 600,000 tons of domestic petroleum will be exported. INA expects to produce, in addition, 5.6 million tons of oil products (1 million tons of gasoline for motors, 1.9 million tons of medium-weight oil 1.6 million tons of heating oil, 354,000 tons of primary gasoline, and 188,000 tons of butane). In the past 10 months INA has processed about 4.8 million tons of oil which is 22 percent (1.5 million tons) less than planned, largely because of the fact that only 1.2 million tons of petroleum was imported from the convertible-currency area instead of the 2.6 million tons planned. The production of crude oil also fell; only 2,400,000 tons were produced in this period, instead of the 2,474,000 tons planned. The export of oil products, however, has proceeded according to plan; as of 31 October somewhat more than 90,000 tons of primary gasoline, 71,000 tons of medium-weight oil, as well as 74,000 tons of artificial fertilizers were exported. [Excerpt] [Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 21 Nov 83 p 31]

FALL WHEAT PLANTING--This fall wheat has been planted on 1,409,000 hectares, or 91 percent of the 1,552,000 hectares planned and 200,000 hectares less than last year. The planting plan has not been met in any republic or province. The most successful work has been done in Vojvodina where 96.7 percent of the plan was met and 309,600 hectares planted in wheat. In Serbia 366,000 hectares were planted or 82 percent of the planned area. The basic reasons for failure to meet the plan are unfavorable weather conditions and inadequate economic interest by farmers in planting wheat, since fertilizer costs have risen almost 30 percent and prices of diesel fuel and seed have also increased. Since the wheat planting plan was not completely met, the possibility remains to plant spring crops on this unused acreage. Wheat which was planted before the beginning of December has developed well and is now protected from frost under cover of snow; wheat planted later, however, has not developed well in some areas. Snow and cold weather recently has prevented deep winter plowing which has been done thus far on about 70 percent of the grain areas. [Excerpts] [Belgrade BORBA in Serbo-Croatian 9 Dec 83 p 1]

EARNINGS FROM TOURISM--From the beginning of 1983 to the end of October last year \$823.2 million was earned from tourism. The Yugoslav National Bank sold

dinars valued at \$17.9 million to foreign banks; \$157.6 million were exchanged for dinars at money exchange stations; \$300.5 million were brought in the form of money orders; while gasoline coupons were sold for \$347.2 million. In November there was \$58 million more in foreign exchange, thus, a total of \$881.2 million was earned in foreign exchange from tourism to the end of November last year. [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 23 Dec 83 p 3]

AGRICULTURAL RESULTS--In 1983 the following basic agricultural production was attained: 5.519 million tons of wheat, 10.439 million tons of corn, 5.7 million tons of sugar beets (720,000 tons of sugar), 135,000 tons of sunflowers, and 200,000 tons of soybeans (140,000 tons of edible oil). That is, the share of grain production increased, that of industrial crops decreased, while livestock production continued to stagnate, especially cattle and pig raising. This level of production was brought about partly by inadequate and untimely supplying of producer goods, especially mineral fertilizers, pesticides/herbicides, and protein animal feed. This fall wheat has been planted on 9.2 percent less area than called for in the plan, and 12.4 percent less than last year. As a result, a harvest of 5.233 million tons is expected and state procurement of wheat must increase 2.6 percent over 1983 to meet commercial needs. There was also a 14 percent decrease in the planting of rape in 1983 compared to 1982. For 1984 the following production is planned: 11.925 million tons of corn, over 8 million tons of sugar beets, 215,000 tons of sunflowers, and 323,000 tons of soybeans. This would result in a shortage of only edible oil. Total meat production is planned at 1.274 million tons, or 1.3 percent less than in 1983. To meet agricultural needs, 3.280 million tons of fertilizer (costing \$280 million) and 75,000 tons of herbicides/pesticides (costing \$120 million) must be provided, as well as \$10 million worth of spare parts for machinery and the import of 300,000 tons of soybean kernels and 380,000 tons of other protein components (costing \$270 million) for animal feed. [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 11 Jan 84 p 1]

TRADE WITH IRAN--Total volume of trade in 1983 exceeded \$600 million (\$343.3 million in Yugoslav exports and somewhat less in Yugoslav imports from Iran). Exports to Iran include chemical products (\$41.171 million worth in the first 11 months of last year), yarns and fabric (\$39.035 million), and food products (\$16.496 million). Especially significant was the export of cellulose fiber (\$18.82 million). [Excerpt] [Belgrade PRIVREDNI PREGLED in Serbo-Croatian 11 Jan 83 p 2]

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